

Washington's Lottery Business Plan

2007-2009 Biennium

(Fiscal Years 2008 and 2009)

Vision:

Washington's Lottery: Leader in public value, first in fun.

Product Mission:

To offer imaginative games that bring fun and dreams into people's lives.

Economic Mission:

To responsibly maximize our revenues to the State of Washington.

Social Mission:

To enhance the quality of life for the people of Washington by financially contributing to education and other community endeavors.

67.70.40... in order that such a lottery be initiated at the earliest feasible and practicable time, and in order that such lottery produce the maximum amount of net revenues for the state consonant with the dignity of the state and the general welfare of the people...The use of electronic or mechanical devices or video terminals which allow for individual play against such devices or terminals shall be prohibited. Approval of the legislature shall be required before entering any agreement with other state lotteries to conduct shared games;] RCW 67.70.330... To the extent set forth in this section, the office of the director shall be a law enforcement agency of this state with the power to investigate for violations of and to enforce the provisions of this chapter and to obtain information from and provide information to all other law enforcement agencies.

Submitted May 5, 2006, the information in this Business Plan is subject to change due to new legislation, policy changes and economic factors.

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2007-2009 Biennium

Table of Contents

Where are we today?

Business Description	1
Major Partners	1
Beneficiaries	3
Appraisal of External Environment	4
Trends in Customer Characteristics	7
Human Capacity Assessment	9
Internal Resource Assessment	9
Performance Assessment	10
Financial Health Assessment	12

Where do we want to be?

Vision Statement	13
Strategic Plan	14
Strategic Assessment	15
Risks	15
Obstacles	17
Opportunities	17

How do we intend to close the gap between where we Are and where we want to be?

Operational Production Plan	21
Financial Plan	22
Performance Estimates	22
Marketing Plan	23

Attachments

High-level Organizational Chart	A
Agency Departmental Organizational Charts	B
Commissioner Organizational Chart	C
Draft Fiscal Year 2008 Marketing Activities	D
Draft Fiscal Year 2009 Marketing Activities	E
Agency Activity List	F
Risk Assessment Plan	G

Washington's Lottery Business Plan

2007 – 2009 Biennium

Business Description

Washington's Lottery provides funding for education and for community endeavors by maximizing profits from the sale of creative and entertaining Lottery products within our guidelines of regulation. The Lottery's two current product lines include *Scratch* and Draw games.

- Scratch games – Played by scratching latex from a paper ticket to reveal any predetermined wins. Priced from \$1 to \$20. 45 – 50 new games scheduled to be launched yearly.
- Draw games – Played by matching numbers on a game ticket to numbers drawn by the Lottery, either daily, twice a week, or three times per week... Priced at \$1, includes *Lotto*, *Mega Millions*, *Quinto*, *Daily Keno* and *The Daily Game*.

A small staff of 150 full- and part-time employees operates the Lottery. (See organization charts, attachments A and B). A Lottery Commission adopts the administrative rules that govern the establishment and operation of Washington's Lottery. This Commission is comprised of five Commissioners, appointed by the Governor to rotating six-year terms. (See organization chart, attachment C). Private sector contractors (GTECH, Scientific Games and Oberthur) provide lottery tickets and the support systems to facilitate ticket sales at retail locations. The Lottery engages and licenses retail business partners to distribute Lottery products. Currently over 3,500 retailers sell our complete product line.

The Lottery currently accounts for approximately 10% of the gaming market share in the State of Washington (*Washington State Gambling Commission-Fiscal Year Net Receipts Comparison*). The Lottery's sole competitive advantage is rooted in its legislated control over the sale of gaming products at retail locations such as convenience stores and supermarkets. In addition, the Lottery is, for now, the only gaming choice in Washington that offers top prizes of millions of dollars for a wager as small as one dollar.

Gaming / gambling market share consists of tribal casino offerings of table games of chance (e.g., craps, roulette), house-banked card games (e.g., blackjack, poker), multi-draw *keno*, and Video Lottery Terminals (VLTs). Private casinos and card rooms offer traditional poker in addition to house-banked card games.

The following information is presented as the Lottery's approach to implementing our Strategic Plan. The three focal strategies are Lottery staff, product and public value. The Lottery believes that these strategies will be instrumental in meeting or exceeding our vision and mission.

Major Partners

The Lottery's key partners are those outside contractors that work as an extension of the Lottery, and without which we could not operate as efficiently and effectively as we do.

- ❑ **Retailers:** The approximately 3,500 retailers selling Lottery tickets at their locations are the Lottery's single most important business partners. They represent not only the distribution network for Lottery products, but they are also the main point of contact with the people who purchase our games. The Lottery works with retailers not only to encourage the promotion and sale of Lottery products at retail, but also to ensure that Lottery products are represented favorably with the public. It is incumbent upon the Lottery to continue to review its business relationship with retailers and to seek ways to improve that relationship through constant refinement of the Lottery's business practices.
- ❑ **GTECH:** GTECH Corporation is the leading global supplier of systems and services for the Lottery industry. Serving clients in over 50 countries, it has 340,000 point of sale terminals and processes 500 million transactions daily through the entire GTECH network. The Lottery signed a new contract with GTECH for a six-year period (FY2007-FY2012), with four one-year extension options. The company designs, produces, implements, operates and services computerized networks. GTECH is the Lottery's combined Draw game and *Scratch* operations vendor and, as such, plays a critical role in the distribution of tickets, sales tracking, validations of winning tickets, best practices, consulting services, and the Lottery's overall integrity and accountability. The company also provides the Lottery with new and revised game concepts, systems modifications, information about other lotteries and assistance with servicing retailers. GTECH is also the Lottery's provider of Lottery Product Vending Machines (LPVMs). LPVMs provide player convenience through self-service dispensing of *Scratch* tickets from machines that can offer up to 24 different games at one time. In addition, GTECH now offers new functionality that allows participants to purchase Draw game tickets at these same machines.
- ❑ **Scientific Games Corporation:** Scientific Games is a global marketing and technology leader in the lottery industry with over 120 national and international customers, including many of the world's highest revenue-producing lotteries. It works in close partnership with customers to drive retail sales and contain operating costs, resulting in more money for lottery beneficiaries such as education and other good causes. Scientific Games is the only company in the world offering the FullineTM suite of online Draw and Instant lottery products, integrated systems and services including Instant tickets, licensed brand games, entertainment-based promotions, online (Draw) and Instant ticket validation systems and terminals, cooperative services, best practices, consulting services, and innovative ticket vending systems. Scientific Games is the Lottery's primary *Scratch* ticket printing vendor.
- ❑ **Oberthur Gaming Technologies:** Oberthur Gaming Technologies has over 160 years of experience in security printing and is a global supplier of lottery products and marketing services to over 100 clients in 50 countries around the world. These products and services include Instant ticket design, programming and printing, research and marketing support services, licensed properties and promotions support, best practices, consulting services, and Instant ticket validation systems and warehousing and distribution. Oberthur Gaming Technologies is the Lottery's secondary *Scratch* ticket printing vendor.
- ❑ **Publicis Seattle:** Publicis is a holistic marketing company that provides the Lottery both advertising and public relations services. Together with the Lottery's marketing function, Publicis plans and develops the creative materials that provide the basis for the

communications supporting our games and sales promotions, contributing also best practices and consulting services. Publicis, through its partner Optimedia, also provides media planning and buying services to maximize the distribution and impact of Lottery advertisements and other marketing messages.

Publicis Dialog, Publicis' public relations arm, creates and directs public relations programs for many of the world's leading companies. It provides the Lottery with public relations promotion resources. Publicis Dialog works with the Lottery's Marketing and Communications personnel to develop promotions and events that enhance public education and awareness of Lottery products, programs and accomplishments.

- ❑ **Retailer Associations:** There are five major associations that most often represent the retailers with whom the Lottery has developed strong, productive working relationships. The Washington Food Industry, Washington Retail Association, Korean American Grocer's Association and the Washington Association of Neighborhood Stores are organizations with which the Lottery has engaged in leading the joint development of several major initiatives. In addition, as the Lottery enters into new classes of trade (i.e. on-premise locations- bars and taverns) it is prudent that we keep dialogue open with respective industry associations (such as the Washington Restaurant Association).

Beneficiaries

The Lottery's beneficiaries are legislatively mandated.

- ❑ **Education Construction Fund:** The Lottery's primary beneficiary of unrestricted net proceeds remaining after the satisfaction of the other mandated distributions is the Education Construction Account. These funds, under the direction of the Office of the Superintendent of Public Instruction (OSPI), are used for K-12 new school construction and/or for bond payments on existing school construction debt. The annual goal for contributions to this fund is a minimum of \$102 million, which was accomplished in FY04 and FY05 and looks likely for FY06. Future ability to meet this goal depends upon ability to accomplish sales goals and to accommodate the rising contribution levels mandated to other beneficiaries. The Lottery is one of a number of revenue sources for the State's Education Construction Fund. These dollars are allocated to colleges and universities through direct appropriations, and to K-12 schools through state-matching grant funds that can only be approved after the passage of local bonds and levies.
- ❑ **Stadium and Exhibition Account (Qwest Field / Seattle Seahawks):** The Lottery has a legislative mandate to provide funding for construction of the Washington State Football/Soccer Stadium and Exhibition Center, beginning in 1998 and ending in 2020. Total commitments over the life of this mandate will be \$219.7 million. The remaining balance for FY07 and beyond is \$164.4 million, of which \$8.2 million will be paid in FY07, \$8.5 million will be paid in FY08 and \$8.9 million will be paid in FY09. The Seattle Seahawks are mandated to assist the Lottery, in the form of in-kind contributions, in generating these funds. To accomplish these goals, the Lottery and the Seahawks have developed a strong partnership that includes joint efforts in creating effective advertising, signage, web site links and banner advertisements; training camp, pre-season, and regular season home game

promotions; and sales incentives to support the Lottery's consumer and retailer promotions to launch football-themed *Scratch* tickets.

- ❑ **King County Fund (Seattle Mariners):** The Lottery also has a legislative mandate to provide funding for the construction of the Seattle Mariners stadium beginning in 1996 and ending 2015. Total commitments over the life of this mandate will be \$89.3 million. The remaining balance for FY07 and beyond is \$51.1 million, of which \$4.5 million will be paid in FY07, \$4.7 million will be paid in FY08 and \$4.9 million will be paid in FY09. Although there is not a mandate for the Mariners to assist the Lottery in generating that funding, the Mariners have helped within the rules of Major League Baseball.
- ❑ **Economic Development Strategic Reserve Fund:** The Lottery has a legislative mandate to distribute one third of all prizes that go unclaimed during the fiscal year to the Economic Development Strategic Reserve Fund. The use of these funds is limited to the funding of a position within the Economic Development Commission and other expenditures authorized by the Governor with the recommendation of the Director of the Department of Community, Trade and Economic Development and the Economic Development Commission. Beginning in FY06, it is anticipated that these contributions will be approximately \$2.8 million per year.
- ❑ **Problem Gambling Account:** The Lottery has a legislative mandate to contribute to a newly created account to fund a program for the prevention and treatment of problem and pathological gambling. This mandate formalizes the approach that the Lottery has always taken. The Lottery shall contribute to this fund a percentage of its net receipts (the difference between sales of Lottery products less the payments made to winners). For FY06 the percentage is 1/10 of 1%, increasing to 13/100 of 1% for subsequent fiscal years. Contributions for FY06 and FY07 are expected to be approximately \$175,000 and \$250,000 respectively.

Appraisal of External Environment

It is essential that the Lottery assesses the external environment in order to implement our Strategic Plan.

The Lottery operates in a retail business environment and is therefore subject to rapidly changing market conditions. The Lottery's ability to adapt to those rapidly changing market conditions will determine its competitiveness and ability to continue generating revenues. Changing conditions include Lottery market share, Lottery customers' expectations due to changes in the mix of products offered, and economic factors. Each of these shifts will be described in detail below.

Lottery Market Share

Most United States lotteries enjoyed near-monopoly gaming status during their early years, with legitimate gaming competition coming only from resort casinos in Las Vegas and Atlantic City. During the 1990s, lottery monopolies began to erode as states permitted other gaming activities to expand significantly. The State of Washington has more forms of legal in-state gaming entities than most other states. Washington Lottery's direct legitimate gaming competition comes in

many forms. These forms of legitimate competition include tribal casinos, enhanced card rooms, pull-tab games and traditional card rooms.

All of these activities taken together have produced gaming revenues (wager minus win) that have tripled within the last decade. However, this growth in gaming has occurred almost exclusively in tribal casinos and card rooms. Lottery revenues vary from year to year, while bingo and pull tab revenues have declined for years. As gaming has expanded, the Lottery share of the market has declined. In FY1999, Lottery revenues of about \$177 million accounted for 25% of statewide gambling revenue. In FY2005, Lottery revenues were again \$177 million, but gaming had expanded so that the Lottery share accounted for only 10% of the statewide result.

Lottery Customer Expectations

The expectations of our customers dictate that the Lottery perpetually develops new games and markets and expands our strategic outreach.

Traditionally, the compelling reasons that consumers choose Lottery games over its competitors' games have been rooted in three general areas: 1) the ability to offer extraordinarily large sums of money as prizes for a very small wager; 2) the convenience of play as Lottery games are in nearly every convenience store and supermarket, as well as some other retail outlets; and 3) public openness and accountability with respect to game operations and beneficiaries.

While the Lottery still maintains a competitive edge in these areas, threats to its perceived value, and therefore its playership base, are numerous.

Increasing gaming options, such as those that attain a fast pace or involve an element of skill, have accounted for much of the growth in the casino and card room venues. The Lottery will need to create compelling games, within its guidelines, that can compete in this market.

Large, popular mass merchandizing outlets do not offer Lottery products. As these chains continue to expand their product offerings into gasoline, convenience items and groceries, they draw customers away from traditional gas, convenience and grocery stores where Lottery products are sold.

While the Lottery enjoys a reputation for honesty and integrity, ongoing public opinion research indicates that the degree to which people agree that "proceeds from the Lottery benefit the people of Washington State" has fallen significantly.

The Lottery's strategy to address the product perception issue is to establish new methods of product distribution, identify and enter new markets, and create non-traditional business models. Strategies to expand public outreach include nurturing stakeholder relationships, telling our compelling story and communicating where the money goes.

Economic Factors

Lottery performance cannot be reliably predicted based on current and foreseeable economic trends. Nevertheless, significant and general decreases in disposable income might be expected to dampen Lottery sales. Washington State derives a large part of its operating revenue from a tax on retail sales, and maintains a professional Forecast Council to predict tax revenues in future periods. The Washington State Revenue Forecast, updated in February 2006, predicted a small increase over earlier expectations for the 2005-2007 biennium, and an increase of nearly 10% in the next biennium. Consequently, economic factors appear to be conducive to continued growth in Lottery sales; there is no indication of an impending downturn.

E-Commerce Drivers

Entertainment is increasingly understood as something delivered electronically. Electronic games with a skill element are enormously popular. Pure games of chance (electronic or otherwise) generally require a material reward element to maintain the interest of players. Internet gambling (games of chance with material rewards played over Internet) has become very popular in the jurisdictions that allow it (including some European countries, but no part of the United States). To the degree that Internet gambling is effectively forbidden in the United States, state lotteries are protected from a potential major competitor.

Industry Trends

It is essential that we consider industry trends in our efforts to perpetually develop new games and markets in order to maintain our current playership and attract new customers.

Most of the games offered by state lotteries are either Instant tickets (*Scratch*) or Draw games (e.g., *Lotto*). A distinct difference between the two games is the way that the prizes are distributed to the participants. Instant games return money to customers mostly in the form of relatively abundant small prizes. Draw games return money to participants mostly in the form of very rare, very large prizes. The proportion of the ticket sales that is ultimately returned to customers in the form of prizes (referred to as “prize expense”) ranges from 50% to 75% in Washington, with Draw games being closer to 50% and Instant games being closer to 75%.

In recent years, most states have attempted to increase Draw game sales by joining multi-state Draw games (e.g., *Power Ball*, *Mega Millions*), which allows them to offer games with top prizes much larger than any state could afford to offer on its own. In most jurisdictions, the multi-state games have added incremental sales, but they have pulled play away from the in-state Draw games. In some jurisdictions, this has been severe enough to jeopardize the in-state *Lotto*-type game. The overall trend in Draw game sales over the past few years has been flat or declining. In Washington, a 25% decline in Draw game sales has been accompanied by better management of prize expense; with the result that net win from Draw games has changed little over the last three years.

In some states, lotteries have diversified their offerings beyond traditional Instant games and Draw games. A Video Lottery Terminal (VLT) can be thought of as an electronic form of an Instant game in that the universe of possible outcomes is determined before the game starts, and each play consists of buying one of the predetermined outcomes. This background action can be accompanied by an electronic foreground that simulates the play action of a slot machine, a traditional game of chance, or some other entertainment.

Sales of some Draw games can be bolstered by increasing the frequency of the draw. Several states draw their smallest “pick a number” game (usually a “Pick 3” offering set prizes of \$500 or under) two or three times per day. In social settings where results can be communicated in real time by video monitors, *Keno* games are most successful when drawn at four- or five-minute intervals. Quick-Draw *Keno* (QDK) has been a strong revenue generator in the states that offer it.

Several state lotteries have begun to introduce computer, Internet and/or mobile phone enhancements to their product lines. Washington’s legislation is clear and does not allow electronic play of Lottery products. The New Jersey Lottery offers CyberSlingo where a *Scratch*

ticket is purchased at a retail location. The customer *Scratches* the latex to reveal a code that can be entered on a web site. The player can participate in a computer-enhanced play environment that results in a pre-determined winning or non-winning experience. The Kansas Lottery now offers *eScratch* where an on-line (Draw) ticket is purchased at a retailer. The player chooses the amount of the purchase and enters a web site that gives a variety of different games that can be chosen for the play experience. The Iowa Lottery is test marketing an electronic liquid crystal display-based ticket that offers a unique play experience with predetermined outcomes.

Comparison to Other States

Washington's Lottery offers an array of products that includes traditional Draw games like *Lotto*, as well as Instant games (*Scratch* tickets). Some lotteries offer more recently-developed products, such as Quick-Draw *Keno* and Video Lottery Terminals, in addition to these traditional products. These differences in product offerings account for large differences in sales between states.

The differences between states in regards to population distribution, as well as the variety of lottery products offered by the different states, create a challenge when attempting to draw comparisons between Washington and other lottery states.

Colorado, Minnesota, and Wisconsin resemble Washington in retail sales per capita. Within this group of states offering similar Lottery products to somewhat similar populations, we see that Washington's Lottery is generally similar to the peer states as indicated in the table below (from LaFleur's 2005 World Lottery Almanac).

State	Per capita annual sales	Prizes as Percentage of Sales	Beneficiary transfer as % of Sales	Costs of Operation	Year
WA	\$74	61.3%	25.23%	13.5%	2005
WA	\$78	61.4%	24.43%	14.2%	2004
CO	\$88	59.0%	25.94%	15.1%	2004
MN	\$76	58.3%	26.03%	15.7%	2004
WI	\$88	57.0%	27.18%	15.8%	2004

This table shows that other states spend a little more on costs of operation (including contracted advertising and promotion, retailer and vendor expenses, and Lottery administration) and a little less on prize expense. Variations in prize expense account for much of the variation in the percentage of sales transferred to beneficiaries.

Trends in Customer Characteristics

Customer Trends

The general trends in play by our customers demonstrate the need to perpetually develop new games.

☐ **Draw games**

There have been dramatic changes in play volume of Washington's Draw games in the past few years. Spending on Draw games has dropped by about 25% since 2003, yet net win (gross sales minus prize expense) on Draw games has remained about the same. This is mostly due to the changes in the in-state *Lotto* game. In 2003, we were selling both the multi-state *Mega Millions* game and a *Lotto Plus* game that was similar in structure to *Mega Millions*. The prize expense for *Lotto Plus* in FY 2003 was 75%.

Due to the vulnerability of the game's profitability, and in response to complaints from customers who preferred the traditional single-pool format, *Lotto Plus* was discontinued and the traditional *Lotto* game was reintroduced in October 2003. The result on volume of spending has been a reduction in sales in *Lotto*, with much of the sales shifting to *Mega Millions*. Prize expense has been managed to 50%, and consequently the net win is about the same as it was when the game sold twice as much volume with a 75% prize expense. Any further reduction of prize expense, however, would result in a greater reduction in sales and a negative impact on profits.

In addition to a decrease in sales volume, the number of people playing *Lotto* and the frequency in which they play has declined substantially in the past two years. Among the Draw games, only *Mega Millions* has an increasing trend in playership. Sales for both *Lotto* and *Mega Millions* are being addressed through marketing strategies (see Marketing Plan section).

☐ **Instant games**

Instant (*Scratch*) game sales have increased in each of the past several years. *Scratch* games now account for about 66% of all Lottery sales.

Washington *Scratch* tickets range in price from \$1 to \$20. The premium-priced tickets feature bigger top prizes and have better overall odds of winning than the lower-priced tickets. Prize expense for *Scratch* games ranges from about 59% on the \$1 tickets to 75% on the \$20 ticket.

The growth in *Scratch* sales since at least 2003 (when the \$20 ticket was introduced) has been due not to selling more tickets, but to selling a similar or smaller number of tickets at a higher average price. Sales of \$1 and \$2 tickets have declined, while sales of higher-priced tickets have increased. Consequently, prize expense as a percentage of sales has increased to about 67%. Likewise, the number of active *Scratch* customers declined slightly from 2004 to 2005. *Scratch* remains by far the most widely-played group of Lottery games, with about 29% of the population playing in the last six months.

☐ **Overall trend in playership**

Many customers play multiple Lottery games. Current figures indicate that about 31% of the eligible population in Washington has played some Lottery game in the past six months. Clearly, most of these have played *Scratch*. People who play Draw games but no *Scratch* games comprise only 2 to 3% of the population, a much smaller percentage than in years past.

The fact that most players of Draw games also have experience with *Scratch* helps us understand the balance between these two game categories. Research indicated that people play Draw games for the large jackpots, while participation in the *Scratch* games is mostly

about actually winning small prizes. What we have seen is a trend of players' spending following their actual experience. Customers have responded to the much more abundant winning experience in *Scratch* by moving their spending from Draw games to *Scratch* games.

With the understanding of these trends in customer characteristics, the Lottery is presented with the challenge to perpetually develop new games that provide a winning experience and satisfy customer expectations.

Human Capacity Assessment

One of the Lottery's greatest strengths is its long-tenured staff and their organizational knowledge. This becomes a risk when we consider retirement eligibility and movement away from the agency. In the last five years, the Lottery has averaged 3.6 retirements per year. In the next five years, approximately 42% of the Lottery's workforce will become eligible to retire, including 67% of District Sales Representatives and 38.2% of Managers and Supervisors. This situation is not unique to the Lottery. Over 50% of state employees are age 45 to 59, and the state is experiencing higher turnover due to retirement.

Internal Resource Assessment

The Lottery's 2006 Employee Survey results have an overall average of 3.95 out of a possible 5.0, which is the same average as our last survey conducted in 2004.

Two areas in which we improved are:

- I know how my work contributes to the goal of my agency: FY 04 = 4.28, FY 06 = 4.4
- I know what is expected of me at work: FY 04 = 4.13, FY 06 = 4.4

The key reason for this improvement is our focus on accountability and performance to individual and agency goals.

The area for improvement is:

- My performance evaluation provides me with meaningful information about my performance: FY 04 = 4.05, FY 06 = 3.6

We believe that implementation of the new Performance and Development Plan evaluation tool and training, which has produced more meaningful information on performance reviews, has impacted this score. Over time, we anticipate that Lottery staff members will become more comfortable with and understand the benefit from receiving evaluations that include more information about opportunities for growth and improvement. This should improve the future scores.

Strong mix of staff with private and public work experience

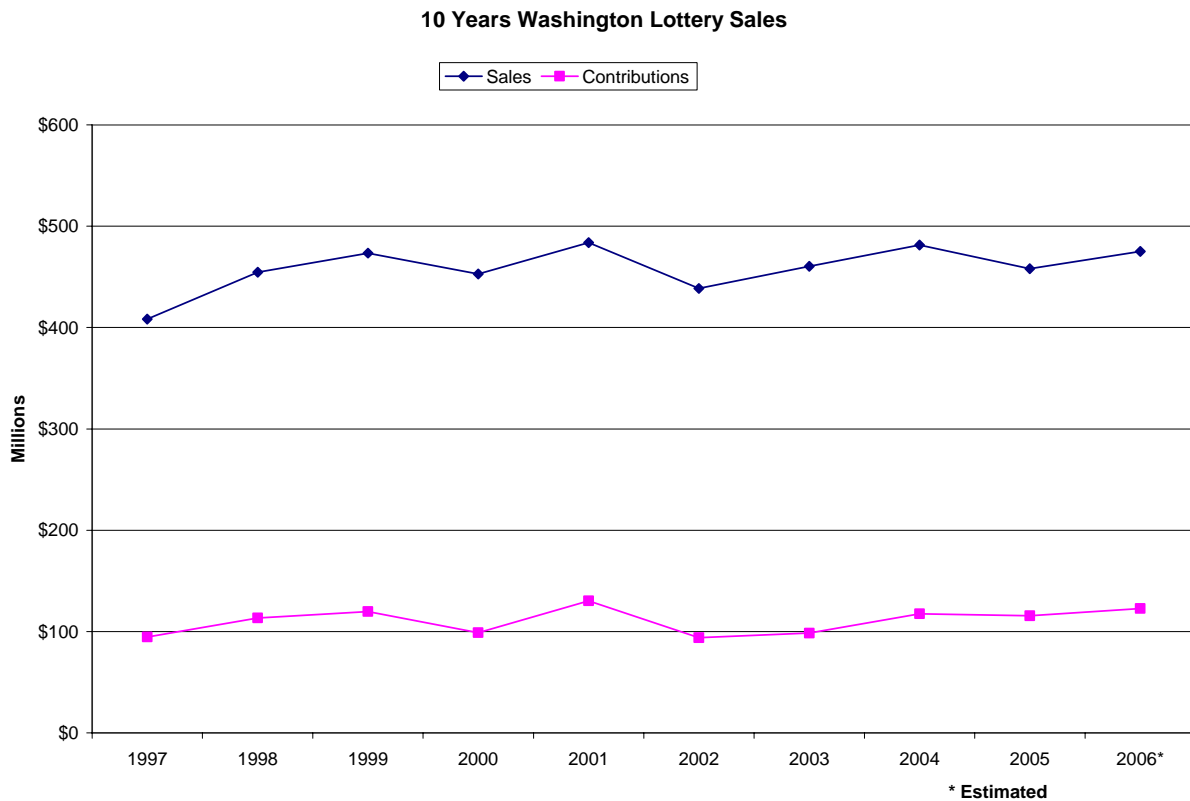
The Lottery works like a private business but operates under state guidelines. We have a good mix of staff that lends itself to productively operating in the dual arenas. A new addition to that complimentary mix is the internal capability to understand and use trend information, which lends support to the Lottery's strategy to strengthen operational effectiveness.

Performance Assessment

Our strategic goals – to inspire people, optimize product and maximize public value – are all necessary elements of enhancing the Lottery’s performance.

FY06 is expected to exceed projections and prior year results for both sales and contributions. Draw games, which provide greater profitability for the most part than *Scratch* games, have been having a successful year. A series of higher-than-expected jackpots in both *Lotto* and *Mega Millions* has helped to generate significant sales increases this year. However, as these particular games are jackpot sensitive, a succession of winners would suppress the jackpot and associated sales at any given time. *Scratch* sales have been slightly over projection.

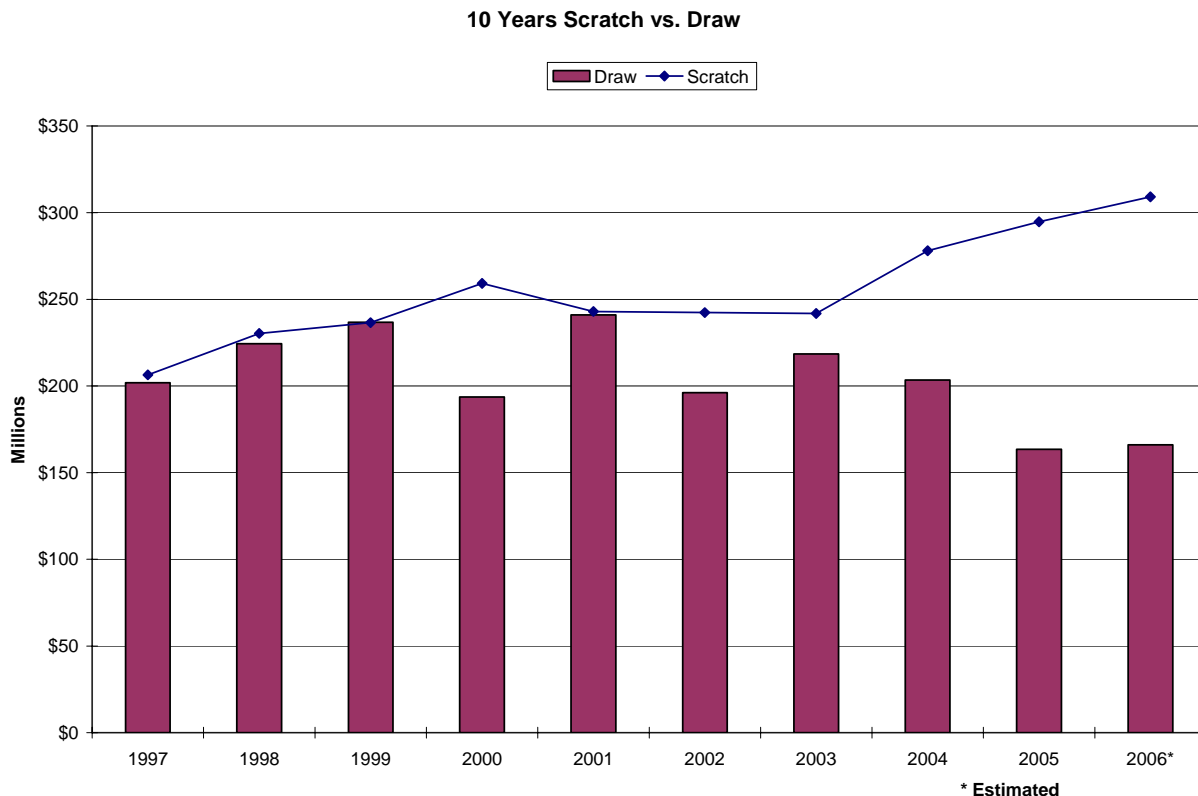
The long-term (10- year) view of Lottery sales and contributions shows notable year-to-year variation in both. Year-to-year variation in sales is superimposed on a gradual increasing trend.



2007 – 2009 projections will be provided with the budget submittal in August 2006.

With regard to contributions, the year-to-year variation tends to mask any trend.

This picture is more easily understood by considering the sales of Draw and Instant (*Scratch*) games separately.



2007 – 2009 projections will be provided with the budget submittal in August 2006.

The variability in contributions can be understood in terms of the variable prize expense of the in-state Draw games as they were managed before FY2004 (as described above under Customer Trends).

Draw game sales reached notable highs in FY1998, 1999, and 2001. The detailed record shows that unusually high jackpots in the *Lotto* game occurred within each of these periods. Within FY2000, no remarkable jackpots accumulated. The Draw game record from 1997 through 2002 can be understood as showing the inherent variability in results of a big Draw game, especially one in which the increase in size of the jackpot is not tied directly to sales. The variation in contributions during this same period is directly due to Draw game performance. Very high Draw game jackpots imply long-running games in which sales far exceed the jackpot eventually paid, resulting in high profit margins. In more typical years, profits are lower.

The introduction of *Mega Millions* to the Draw game portfolio and changes to the *Lotto* game around the same time caused an increase in Draw games sales in FY2003 and a decline thereafter, as discussed in more detail above. During this same time, the prize expense of the Draw games came under better control. The decline in Draw game sales, therefore, did not contribute to a corresponding decline in contributions.

Instant games sales have increased in two phases, each corresponding to a period of product differentiation. The introduction of the \$20 ticket in FY2003 started a period of sales growth,

during which activity has shifted to higher-priced tickets. Growth in contributions has been more moderate, since the higher-priced tickets also have higher prize expense.

Financial Health Assessment

The Lottery's financial health is best measured by its ability to meet its contribution mandates and goals. In terms of traditional financial health measures of assets available to satisfy liabilities and provide adequate operational cash flow, the Lottery is very sound financially.

All Lottery assets, excepting some minor building improvements, are held in anticipation of future contribution to its beneficiaries. Current assets are adequate to satisfy current liabilities. Long-term liabilities, consisting primarily of future annuity payments to winners, are fully collateralized by securities purchased for that purpose. The Lottery does not have, nor is it anticipating, any long-term debt.

The ability to meet future financial goals is greatly dependent on the ability to generate future sales of lottery products. Approximately 95% of operating expenses are variable with revenues from sales. Other expenses, including administrative expenses, research, advertising and promotion are closely managed to reflect a prudent spending plan for the success of the Lottery.

WASHINGTON'S LOTTERY
FY2008 and 2009 Strategic Plan

Where do we want to be?

Vision: Washington's Lottery: Leader in public value, first in fun.

WASHINGTON'S LOTTERY

FY 2008 and 2009 Strategic Plan

PEOPLE / INSPIRE

Enhance Development

- Achieve a performance-based culture

Enhance Internal Communications

- Act upon internal customer feedback
- Speak and write clearly

PRODUCT / OPTIMIZE

Perpetually Develop New Games and Markets

- Establish new methods of product distribution
- Identify new markets and implement plans to enter these markets
- Create new, non-traditional business models

Strengthen Operational Effectiveness

- Design, develop, and execute new processes and systems
- Enhance existing processes and systems
- Implement sales efficiency programs

PUBLIC VALUE / MAXIMIZE

Expand Strategic Outreach

- Nurture stakeholder relationships
- Convey the compelling story
- Communicate “Where the Money Goes”

Strategic Assessment

The Lottery's strategic goals were developed using our strategic assessment to help in the identification of risks, obstacles and opportunities.

Risks

☐ **Rapidly changing buying practices**

"Big Box" stores are accounting for a large and increasing amount of both customer visits and spending. To a notable degree, these stores are diverting traffic and spending away from the supermarkets and convenience stores that are the Lottery's main retailers. Big Box stores have, up to this time, not been receptive to proposals to become Lottery retailers themselves due to the lack of uniformity of business practices among the 42 lotteries and/or moral objections.

☐ **Core customers aging**

The demographic trends projected for the next several years tend to focus attention on the continued importance of the maturing population segments. The age segment 55 to 64 is expected to comprise 16% of the eligible population in 2010 (up from 14% in 2005). The 35-54 segment is expected to shrink from 40% to 37% of the eligible population, while other age categories are expected to remain constant. In absolute terms, the over-55 population is expected to expand from about 1.37 million people currently to 1.64 million in 2010, a 20% increase.

This demographic change may have an impact on sales from the Lottery's portfolio of products.

Most Lottery customers fall into the broad age category of 35 to 54. More than 50% of faithful *Scratch* players are in the 35 to 54 age category, while more than one third of weekly Draw game customers are in the 55 and over age category.

If, as customers age, they carry their play habits with them essentially unchanged, then we can expect to see a gradual shift in the demographics of *Scratch* play in the near future, with mature customers accounting for more of the spending. On the other hand, if customers change their style or frequency of play as they age, then we may see mature customers shifting toward Draw games. The "longer odds, bigger prize" value proposition of Draw games may be inherently more appealing to mature customers. Whether these individuals will change the amount they spend is uncertain.

☐ **Relationships and communication with stakeholders**

Although the mission of the Lottery is clearly economic, specific mission objectives have often been misunderstood by stakeholders. Now and into the future the Lottery needs to develop relationships based on communication and input. Decisions need to be based on accurate information and sensitivity to public issues given the caveat that consensus may not always be achieved.

As a sales and marketing organization, research is an important core process. Information revealed by research should not be misinterpreted as the Lottery's initiatives for the future, but rather should be viewed as necessary for the Lottery to achieve a fundamental understanding of the market and market conditions for its competitive value. It should be the

Lottery's primary concern that the dissemination of research results is not misunderstood as its position. As such, developing and maintaining a relationship with the Lottery stakeholders, including the legislature and legal staff, is of primary importance.

☐ **Limited new product offerings**

Some products that have been introduced successfully by lotteries in other states are prohibited under current Washington law. Examples include any Draw games that require drawing more than once per day and interactive electronic devices.

Development of new products by the relatively few vendors that supply the worldwide lottery industry is focusing more intently on games that are restricted under current Washington law.

Washington's Lottery will need to rely on internal resources to develop its own game offerings that fit within our state guidelines, rather than relying on outside vendors.

Decreasing playership

Playership of *Lotto* declined markedly between FY2003 and FY2005, coincident with a large decrease in spending on *Lotto*.

Lottery *Scratch* games have experienced a downturn in playership; however, sales are increasing, in line with industry trend, which is attributed to more instant-win prizes and higher price points. *Mega Millions* playership and sales increased somewhat, but this trend was not enough to offset the downturn in *Lotto*, and the net result has been a decline in playership.

☐ **Loss of revenue to Internet gaming**

The explosion of Internet gaming has created a major market. This vast and unregulated industry potentially diverts significant spending away from state lotteries, but there is currently no quantitative data available.

☐ **Advertising challenges**

With limited resources for advertising, the Lottery faces constant challenges to maximize its advertising efforts.

The Lottery, like any consumer good, competes not only for sales, but for share of mind. Consumers are bombarded with thousands of messages every day. We know that most consumers see Lottery products as an impulse item. The job of Lottery advertising and promotional activity is to encourage Lottery purchase by our consumers as they walk into the store.

The Lottery spends roughly 2% of gross revenue on advertising. Compared to other industries competing for expendable income dollars, it is clear that competition for advertising "share of mind" is fierce. Refer to the table below*

Amusement parks	9.6%	Games, toys, etc.	8.8%
Apparel	4.3%	Consumer packaged food	11.1%
Beverages	9.0%	Perfume, cosmetics, etc.	7.2%
Department stores	3.5%	Tobacco products	4.3%

*Marketing Today, February 2006. Information pulled from "Advertising Ratio's and Budgets" 28th Edition, Schonfeld & Associates, Inc.

☐ **Knowledge loss due to a large number of employees who are eligible for retirement**

In the next five years, approximately 42% of the Lottery's workforce will become eligible to retire: 67% of District Sales Representatives, 38.2% of Managers and Supervisors. In the last five years, the Lottery has averaged 3.6 retirements per year. Succession planning will be key to successfully managing the loss of key staff. In addition, our goal of establishing a performance-based culture will strengthen our ability to retain high-performing employees.

Obstacles

☐ **Multiple beneficiaries**

Ongoing research conducted for the Lottery shows that where our proceeds go affects both how people feel about the Lottery and their decision whether to buy tickets. To the degree that Lottery proceeds are known to benefit widely-supported programs, both general acceptance and sales would be expected to benefit.

Having multiple beneficiaries makes it difficult to explain where Lottery proceeds go. This represents a lost opportunity to generate customer loyalty and potentially increase revenues. Many lotteries around the country have single or narrowly-focused beneficiaries that are easier for citizens to understand and support. Lottery tracking studies suggest that citizens would play, or play more often, if they knew their money was going to support education.

☐ **Public misunderstanding of "where the money goes"**

Tracking study research during the first half of FY 2006 indicated that about 30% of current customers were aware that Lottery proceeds go to fund education. Only 20% of non-participants were aware of this fact. This suggests that, on the whole, only about a quarter of the Washington population is aware of where most proceeds go.

☐ **Complicated story of where Education dollars go**

Citizens want to know exactly where Lottery dollars go and specifically, where in their 'backyard' (e.g., "\$10 million Lottery dollars were contributed to the construction of this school."). A majority (about 55%) of active Lottery customers say that knowing where the money goes affects their choice to buy or not to buy Lottery tickets. Pinpointing specifically where Lottery revenues for Education were used in local communities could help customers understand how the funds are applied, which would potentially encourage sales, and most importantly, clearly show how our proceeds benefit education.

☐ **No lottery industry accounting/business standards**

Preliminary research indicates that large multi-state retailers will require a common or unified lottery operation process (invoicing, handling, redemptions, etc). This dictates that various lotteries, most likely under the guidance of the North American State and Provincial Lotteries (NASPL), create a standardized process.

Opportunities

Several opportunities have been identified that will help the Lottery achieve its overall Strategic Plan to inspire people, optimize product and maximize public value.

☐ **Promote Lottery gaming system capabilities to other state agencies**

Promoting our new gaming system capabilities to other state agencies will contribute to strengthening our operational effectiveness and lend itself to expanding our strategic outreach.

The lottery network provides a very large footprint across the entire state, supporting sales at over 3500 retail locations. In the new contract, GTECH will be providing state of the art point-of-sale (POS) terminals and digital signage, connected via high speed network. The Lottery's new POS terminals have expansion capabilities and could offer new state services such as license renewal, local or state tax payments, print on-demand coupons, or even pre-paid gift cards.

The Lottery's digital signage solution has capabilities to send messaging across the entire state or to select locations. This will be used to support Amber Alerts. The system could be used to communicate various messages such as: school closures, mountain pass information, and flood or fire watches.

The Lottery's new VSAT satellite network was designed as a platform for growth that can be expanded as the Lottery increases its business needs into the future. New locations can be easily added to the network to expand coverage, and the amount of bandwidth that is supported across the network can also be increased to support new applications and services.

☐ **Continuous review and implementation of lottery best practices**

Continuously monitoring lottery best practices will enable us to develop new games and markets, strengthen operational effectiveness and expand the Lottery's strategic outreach.

- o Review and research the accounting, sales, marketing and promotion processes for Lottery improvements.
- o Analyze other states' lottery beneficiaries and how they help to increase sales and profits.
- o Review and analyze other lottery *Scratch* and Draw games for possible developments in our product portfolio.
- o Research the use of a "Player's Club" as a means to gain voluntary answers to research questions.

☐ **Favorable attitudes even among non-customers**

Building on the generally favorable attitudes towards the Lottery will be beneficial in strengthening our operational effectiveness and maximizing our public value.

Multiple tracking and segmentation studies conducted for Washington's Lottery show that almost one third of eligible residents play Lottery games. Among those who do not play, a minority are opposed to gambling in any form. A large group of non-customers supports the view that "the Lottery is a harmless form of entertainment." Non-participants who hold this favorable view of the Lottery comprise more than 20% of the Washington population.

☐ **Sales locations in addition to the retail environment**

Exploring the distribution of Lottery products outside of the traditional retail environment will work towards developing new games and markets.

The gaming market in Washington has expanded tremendously during the past 10 years, and the expansion has been based on “new” (previously unavailable in Washington) gaming experiences offered by card rooms and tribal casinos. The opportunities that this presents to the Lottery are: 1) to offer products that are suitable for the retail distribution channels within our authority, and 2) to leverage the advantage of convenience that the Lottery holds over specialized gaming venues.

☐ **Expand our retailer network**

Increasing our retailer base will provide better visibility and accessibility of the Lottery, which will enhance our public value.

Our retailer network can be expanded by offering a variety of hardware solutions and/or business agreements (e.g., leasing retail spacing from retailers instead of paying commissions, Lottery kiosks, and new equipment styles).

☐ **Promote business-to-business sales** (bulk sales, fundraising, recognition packages, etc.)

There is an opportunity for increased awareness and sales of Lottery products through a direct sales channel. Through a continued direct mail program, the Lottery can reach key business decision-makers and promote Lottery products as part of incentive rewards, recognition programs, customer appreciation, and other events.

☐ **Increase marketing and promotions capability with new gaming system**

The Lottery’s new gaming system will be instrumental in optimizing our product and maximizing public value.

At the beginning of Fiscal Year 2007 the Lottery will transition to a new gaming system. The gaming system, supplied by the GTECH Corporation, is the backbone of the Lottery’s operation – supplying the terminals found at retailer locations, the back office system, and new game development.

The Lottery, as part of the implementation of the new system, will benefit from added promotional and marketing capacity. The new system will allow the Lottery to offer new promotions to our customers (retailers) and to our consumers.

The system will allow multiple promotions to run at the same time – allowing for statewide, regional, corporate, and/or individual retailer promotions. The Lottery, using the new system, will be able to easily cross-promote our products with other companies – or to simply cross-promote within the Lottery product portfolio. In addition, the new system will allow the Lottery to develop, generate, and track coupons intended to increase the trial of Lottery products and produce a higher average number of transactions.

All of these capabilities – in addition to the flexibility of adding new points of distribution within the retail environment – are intended to boost Lottery sales and profitability.

☐ **Improve positive public perception**

Focusing on positive public perception is a key element of the Lottery’s Strategic Plan.

Clear communication and a focus on building strong and respectful stakeholder relationships will propel the Lottery into the future. Reaching out to members of the education community, the legislature, other state agencies, and the business community are all key to maintaining or growing public perception.

Many adults (60%) in Washington State base their perceptions about the Lottery on where the Lottery's proceeds are directed. To clearly communicate where Lottery dollars go will be critical in increasing public perception for the Lottery.

In addition, it is important that the Lottery continue to be a leader in community involvement throughout the State. The Lottery recognizes that consumers decide to patronize a business for a variety of reasons – some make their decision solely on community involvement and corporate responsibility. Therefore, it is important for the Lottery to continue to be a leader in community involvement throughout the State. This includes sponsorship of local fairs and events which provides the Lottery with the opportunity to develop positive partnerships with communities across the State. In addition, sponsorship of fairs and events provides the Lottery with an opportunity to interact with the public one-on-one, sharing information about the products we offer and where the money goes.

The Lottery recognizes that community involvement means making a difference in the lives of the people we serve. The Lottery is committed to continuing partnerships with several non-profit organizations, including Page Ahead, which distributes books to children statewide to encourage development of reading skills. The Lottery will continue to gather donations of books for these organizations to distribute to children throughout Washington.

Sharing winner's stories is a critical piece of building positive public perception. Generating publicity about winners is the Lottery's proof of performance. Every time a citizen sees someone win the Lottery they know that revenue is being generated and dreams do come true. Further, when they see that those winners are people just like themselves they realize they could be Washington's next big winner and their inclination to buy a ticket becomes stronger. Generating publicity and awareness about people from all areas of the state winning the Lottery tells the customers that anybody can win. In addition, winners tell the Lottery story better than anyone.

☐ **Build and enhance strategic partnerships**

The Lottery will build and nurture partnerships with stakeholder individuals, agencies, organizations and business through continued outreach efforts. This will help to achieve and maintain positive public value.

☐ **Tell the story of Washington's Lottery in clear, compelling, and relevant examples**

The public needs to be exposed to the benefits and positive impact that the Lottery has on the State in order for us to maximize public value.

The story of Washington's Lottery - its benefits and impact - is one that should be easy to understand and relevant to citizens' lives. Providing real, compelling and, when possible, local examples of where Lottery revenues go and how they impact Washington citizens will help residents and lawmakers understand and support their state Lottery. Citizens know that a state-wide Lottery should have state-wide impact and using local examples encourages a personal and potentially emotional connection with the customer. The story should be told in plain language and short, simple anecdotes of 'product sales-to-public revenues.' By showing accurate and relevant examples of the benefits of Lottery dollars to beneficiaries, businesses, and winners, citizens are able to be more informed of how Lottery proceeds benefit Washingtonians.

Further, such examples should provide citizens with information about the effectiveness of Lottery operations in order to encourage recognition of the Lottery as an efficient state

agency. Such examples are easy for customers and stakeholders to remember and relate to others, thereby turning audience members into ambassadors.

☐ **Increase per capita sales**

In the Lottery's Strategic Plan, it is a goal to Optimize our Products - and an objective to perpetually develop new games and markets. This, in part, refers to the necessity to continually monitor our game portfolio and to make sure that every game delivers as much revenue to our beneficiaries as possible. The Lottery must reengineer any games that are, or become, less profitable over time - even high volume products.

Similar to other lotteries, sales of *Scratch* products are on an upward trend at Washington's Lottery. This upswing in *Scratch* sales will likely lead to a greater percentage of our sales revenue coming from *Scratch* - as well as an increase in sales per capita. Given that we are giving marketing support specifically to *Scratch* as a product line, and that we have a relatively low sales (spending) per capita (\$47.53 per capita in FY 05), we anticipate this trend to continue through Fiscal Year 2008 and 2009 (per capita goals to be provided with August 2006 budget submittal).

Per capita spending refers only to gross revenue, and does not necessarily highlight anticipated profit. With the volume of *Scratch* sales expected to rise for the foreseeable future, we anticipate that profit dollars will continue to increase (if not profitability as a percentage).

Operational Production Plan

Facilities: Examine risks of single-points-of-failure

In order to strengthen the Lottery's operational effectiveness, we must continually enhance existing processes and systems.

Please refer to attached Risk Assessment Plan.

Labor & Management Requirements

The Lottery will continue to enhance staff development to achieve a performance-based culture. Internal communications will also be enhanced by acting upon internal customer feedback as well as speaking and writing clearly. The Lottery plans to obtain Performance Management Confirmation by the end of the biennium.

Succession Planning

Succession planning can help address future gaps by systematically placing staff on a development path now that will prepare them to easily move into jobs with higher-level responsibility in the future.

In a global sense, the Lottery does an excellent job of identifying and developing high-performers. The agency offers training opportunities to develop skills for advancement. The Lottery also encourages participation in activities that expose staff to projects and activities that are at a higher level, with a broad perspective, such as strategic planning, return on investment determinations, etc.

For Lottery-specific succession planning, the agency has engaged in planning for management-level succession. The agency is working toward a more formal plan in place for management positions as well as broadening this plan to encompass agency-specific positions in the front lines. Specifically, the agency plans to put more emphasis on developing employees for promotion to direct-service positions, such as Lottery District Sales Representatives.

Another avenue the Lottery is taking is development of a performance-based culture. Lottery has begun the formal process toward performance management confirmation. Developing a performance-based culture will strengthen the agency through accountability and reward. There will be a clear path connecting each employee's job to the Strategic and Business Plans and success of the organization will be a shared responsibility of employees and managers. This culture will enhance the effectiveness of the agency and strengthen the level of accountability and commitment of staff at all levels.

Agency Activity List

Please refer to Attachment F.

Key Supplies Requirements

None planned at this time. Supplies, equipment and staffing could be affected if new legislation were to pass.

Quality Control Requirements

The agency has a risk management plan in case of an emergency. The Lottery reviews all projects to determine a risk assessment and then develops a plan.

- ☐ Audited daily drawings
- ☐ Audited financial statements
- ☐ Security and quality control checks on *Scratch* products
- ☐ Review of what went well and what did not after major campaign – make improvements

Financial Plan

To be provided with the August 2006 budget submittal.

Performance Estimates

To be provided with the August 2006 budget submittal.

Marketing Plan

The Lottery's Business Plan, as set forth above, is the platform from which our Marketing Plan will be launched. The Washington's Lottery Marketing Plan for the 2007-09 biennium is presented on the following pages.

Washington's Lottery Marketing Plan

2007 – 2009 Biennium

Data Sources

The Lottery draws on information from a number of sources to support its efforts to develop, position, price, and promote products. The most fundamental level of information is derived from our own business enterprise: games have a history of sales, and retail locations have a history of selling games; we can learn a lot by understanding both the general trends in purchasing and the exceptions to these trends. Often understanding the trends requires not only the Lottery's enterprise data, but insight into customer attitudes and needs. For years, the Lottery has maintained a tracking study that obtains detailed attitudinal information from about 2000 Washington residents each year. The tracking study provides a basis for understanding how many people play our games and how customers and non-customers alike view the Lottery. In 2005, this substantial bank of information was supplemented with an independent survey of about 1300 Washington households that participate in other consumer research. In this way, peoples' attitudes toward the Lottery and its games were correlated with their shopping, entertainment, and information practices.

The combination of enterprise data and survey data provides a basis for understanding what customers want in a product. This allows us to develop and position products calculated to appeal to defined audiences. When such products reach a prototype stage, there may be a number of possible alternative ways to present or promote the products. To decide among specific alternatives, it is useful to expose the alternatives to potential customers in a qualitative research setting, where reactions to the concepts can be compared. Often, information gained at this stage can greatly improve the effectiveness of the marketing effort. Further, by knowing more about the shopping, entertainment, and information practices of the audience, it is possible to make better decisions about where and when to advertise the products. To monitor these broader consumer trends, the Lottery relies on subscriptions to consumer-research services rather than conducting any original research. Publicis, the Lottery's prime marketing contractor, also provides excellent consumer awareness.

Distribution Channels

The Lottery currently has 3500 retailers, all of whom are required by law to sell other products besides Lottery tickets. The retailer network is thin in Washington compared to many other states. We are studying the relationship of Lottery products to sales of other products, in an effort to better understand what makes a retailer an effective seller of Lottery products. We expect that this understanding will aid the effort to engage new retail partners to the network.

Marketing Activities

The Lottery develops an annual Marketing Activity calendar (Attachments D and E) that outlines major promotional activities and initiatives for each fiscal year. These tactics are, generally speaking, designed to maintain broad awareness of Lottery products, promotions, and public

relations efforts. In recent years roughly 40% of the calendar was dedicated to the support of *Scratch*, 40% for jackpot awareness, and 20% for major statewide promotions. Each tactic is routinely supported by point-of-sale material and some combination of paid media (television, radio, or outdoor advertising).

Learning from current experience is a main emphasis, and the Lottery constantly evaluates the effects of significant advertising and promotions. Immediate effects on sales are both a desired endpoint and potentially an indicator of longer-lasting effects. Particularly in the case of advertising, which requires a considerable effort, it is important to understand the long-term benefits that can be expected to result. The Lottery is currently working to establish a basis for better-recognizing return on investment.

DRAFT Fiscal Year 2008 Activities: Please refer to Attachment D.

DRAFT Fiscal Year 2009 Activities: Please refer to Attachment E.

Current Trends

In order to maximize our effectiveness – and therefore return the greatest amount of revenue to our beneficiaries – we must stay current on trends. We must be aware and respond to trends in playership, consumer attitudes, product sales, profitability, the retail industry, the Lottery industry, marketing, and our competition. This requires the Lottery to constantly seek, collect, analyze, and interpret data – and to apply the learning as we move forward.

Trade Styles

Efforts to expand retailer trade styles, thereby increasing sales and net revenues, include the Department of Licensing sub-agents, book stores, large chain stores, social establishments, drive-in auto services, coffee shops, automobile dealerships and other potential venues which offer access to a relevant customer base.

Methods used to encourage partnerships with these trade styles will include the use of direct mail, product development specific to new trade styles, business-to-business portal incentives, new product lines and commitment from vendors and partners in a strategy to customize for national firms before approaching big chains.

Product Portfolio

The current product portfolio contains a range of traditional lottery products. Research has identified opportunities to improve the Draw game portfolio by: 1) more clearly differentiating the games from one another, 2) providing winning experience sufficient to sustain steady play, and 3) providing incentive to increase participants spending within each game.

The opportunities are specific to particular games. Some key opportunities are shown below.

- ☐ *Mega Millions*: Incentivize increased spend by providing increased instant winning experiences (independent of the Draw game matrix) for those who play at higher price points.

- *Lotto*: Incentivize increased spend by providing increased instant winning experiences (independent of the Draw game matrix) for those who play at higher price points. Changes may be made to games within the Lottery's product portfolio during FY07 and beyond in order to bolster sales and profitability. To continually evaluate and reevaluate our product portfolio is a strategic objective of the Lottery.
- *Daily Keno*: *Keno* requires an attentive audience to realize full potential; sustaining attention requires faster action; faster action requires legislative changes that would allow for Quick-Draw *Keno*.
- *Daily Game*: Pick-three games are very successful east of the Mississippi; however, they have not caught on significantly in the West. It may be possible to increase sales of this very profitable game by focusing on the favorable odds and the fact that there is a drawing every day.

The Instant game portfolio contains a great number of games, differentiated to a large and visible degree by price and top prize, which are prominently advertised.

Ticket Price	Typical Top Prize	Any Prize Odds 1 in	Prize Expense (FY2005)
\$1	\$1,000-\$5,000	5	59%
\$2	\$15,000-\$20,000	4	64%
\$3	\$30,000	4	66%
\$5	\$50,000	3	69%
\$10	\$100,000-\$300,000	3	73%
\$20	\$1,000,000	2.5	75%

Research has shown that this portfolio has been effective in producing increased spending from a static or declining customer base, by encouraging participants to choose higher-priced products.

Research also indicates that there is an opportunity to improve attraction and retention of new customers by offering games with better odds of winning. Providing more winning experience for people who are buying *Scratch* tickets on a trial basis might be accomplished by either 1) encouraging these customers to buy the higher-priced tickets, or 2) differentiating lower-priced tickets to offer more overall winning experience.

Trial marketing is an important step to enable "tuning" the winning experience of products to best meet the expectations of our customers. Maximizing the satisfaction of participants (within the constraints imposed by limited prize payout) is expected to maximize sales of the product.

Retail Partners

One of the key opportunities for long-term growth with our retailer network is to maintain a high level of relevance with them. The Lottery Sales staff are becoming business consultants, rather than Lottery inventory and merchandising clerks. Through sales training and development of sales materials, our retailer network will look to their Lottery representatives as a good source of business information.

An example of this is the topic of promotions. The Lottery has the ability to react quickly and execute flexible promotions at the retail level. These promotions can be designed to increase traffic counts, generate incremental sales at store level, or create repeat visits to the store. As a

retailer realizes the skill and value that a Lottery promotion offers his business, we again increase our relevance with our retailer partners.

Second Chance Drawings, Ask For The Sale, Retail Co-op Programs, Couponing, Buy X - Get Y, are all types of effective promotions the Lottery is highly skilled at developing and delivering at the retail level. We can customize these to fit the individual needs of a retailer.

Communication Plan

Goal

To substantially increase the positive public perception of Washington's Lottery by stakeholders.

Objective

The objective of the Washington Lottery's Communications Program is to increase awareness among the general public of the benefits of the Washington Lottery to promote understanding and encourage sales.

Strategy

Generate statewide, multi-level publicity about the benefits of the Washington Lottery among key audiences to generate support and encourage sales.

Audiences

- ☐ **Potential Customers:** This encompasses Washington State residents 21 years and over and residents from adjoining and nearby states who travel in and out of Washington State.
- ☐ **Existing Customers:** This group involves current Lottery customers ranging from the occasional customer to the daily consumer of products.
- ☐ **Non Customers:** This group does not play the Lottery or other games of chance, but consists of citizens who have a vested stake in the efficiency of their state government.
- ☐ **Winners:** Lottery winners are a dual audience, existing in both the "customer" category as well as a separate category of prize holders. They are potential Ambassadors for the Lottery.
- ☐ **Retailers:** Retailers who sell Lottery products are partners in business and customers in accountability. They serve as a powerful opportunity to help promote the benefits of playing the Lottery.
- ☐ **Lottery Staff:** Agency staff can serve as advocates for customers and taxpayers and therefore can be a powerful and positive group to help raise awareness.
- ☐ **Educators:** From front-line teachers and staff to top level administrators in K-12 and higher education, individuals in the education community have a stake in the accuracy of advertising information about "where the money goes," and they have the potential to help support the Lottery message.
- ☐ **Governor's Office:** This audience serves as guiding leadership for the Lottery.
- ☐ **Legislators:** House and Senate members pass legislation which will impact the Lottery and direct the way in which the agency can operate. Their understanding of the agency and its challenges and opportunities is critical.

- ☐ **News Media:** Members of the press are both an audience and a tool through which the message travels.
- ☐ **Gaming Interests:** This audience exists in the shape of other forms of gaming inside Washington that impact market share. Vendors are also included in this category.
- ☐ **Business Leadership:** This is a group where good news spreads among top leadership and down through employees. This group acts as yet another channel to reach the potential or existing customer.
- ☐ **Problem Gambling:** These individuals and groups can serve as partners to encourage responsible gaming and provide support to individuals with gambling problems.

Tactics

- ☐ **Outreach Activities:** Emphasis is placed on developing professional, trusting relationships with stakeholders as they are introduced to the Lottery and interact with us. These relationships could prove critical to aiding in future successful awareness efforts.
 - Media Outreach-Media will be contacted on a pro-active basis with the intent to build and maintain relationships and place stories about Lottery issues that promote understanding of the Lottery in the public interest.
- ☐ **Governor's Office Contacts:** Through weekly alerts, personal contact and briefing documents on successes and challenges, a strong relationship with the Governor's office will provide direction on various issues.
- ☐ **Staff Trainings:** Preparing Lottery staff to reinforce Lottery messages through positive stakeholder relationships.
- ☐ **Retailer Outreach:** Placing advertising and other materials at the point of sale will provide consistent information and promote understanding of the benefits of the Lottery.
- ☐ **Paid Media:** Selected media buys intended to highlight products, winners, and beneficiaries could be used depending upon the budget.
- ☐ **Sponsorships:** Sponsorships of community events reinforce fun and entertainment with a benefit to citizens which encourages sales on site or drives customers to buy at a convenient location.
- ☐ **Speakers' Bureau:** Providing informative and interesting history and revenue information will promote understanding and connect audience members to Washington's Lottery.

Evaluation

Evaluation could come in a variety of forms that would help shape a picture of whether strategies and efforts are bringing the desired results.

Annual Research

Annual Lottery public perception research may be able to gauge on a point basis whether public perception has improved or declined through response to baseline questions.

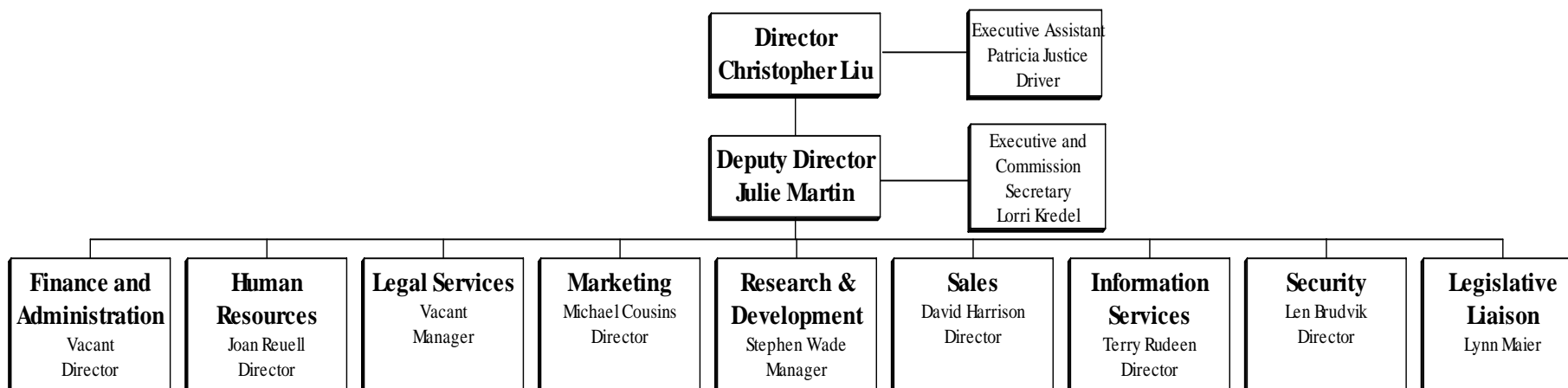
Retailer Surveys

Customer awareness and satisfaction may be able to be measured through annual retailer surveys.

Customer Service reports

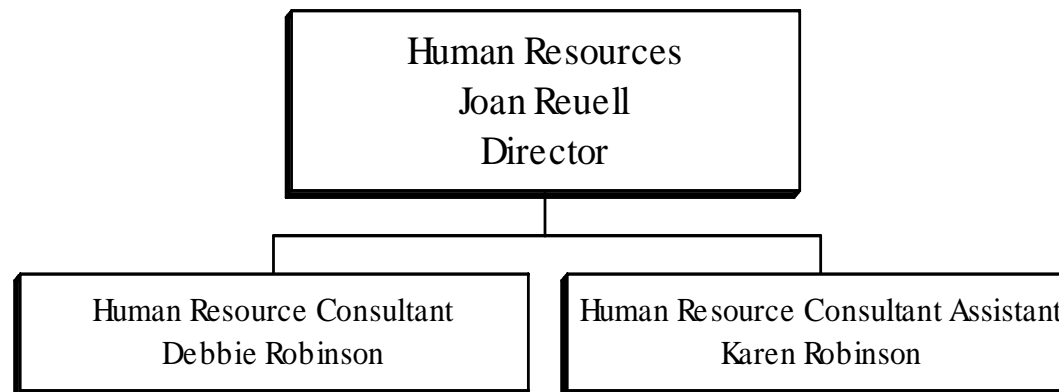
This “front-line” group is able to translate many comments from the public about the perceptions of the Lottery; however, a measurement tool should be developed.

WASHINGTON'S LOTTERY

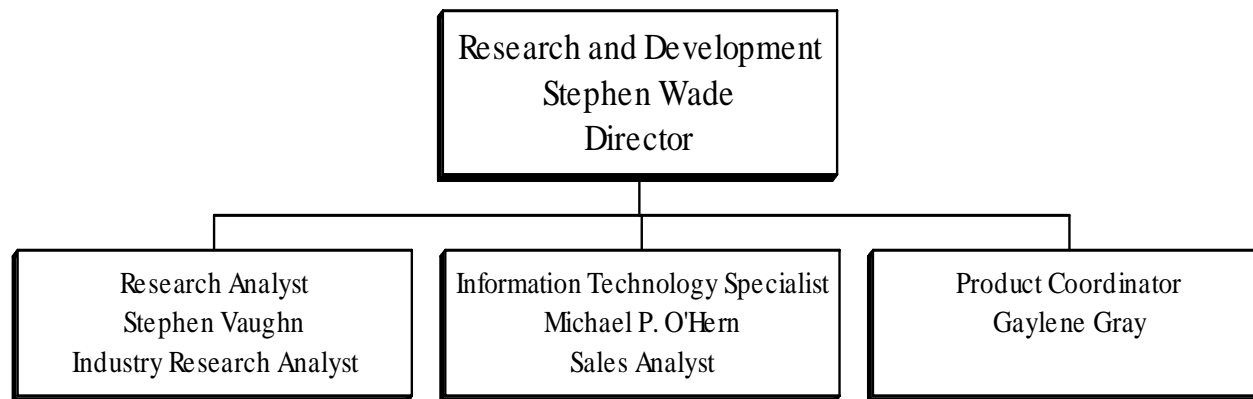


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WASHINGTON'S LOTTERY HUMAN RESOURCES

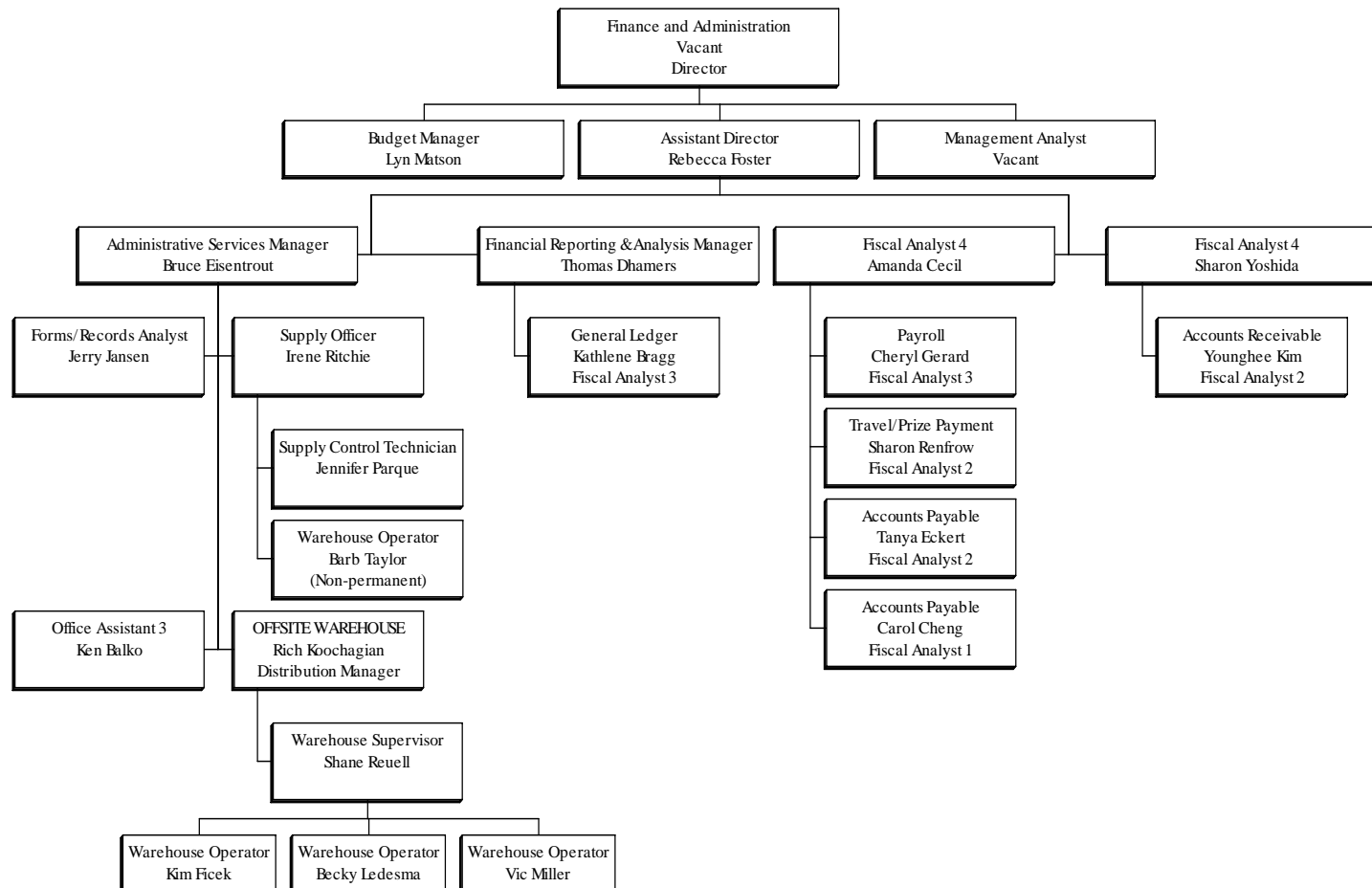


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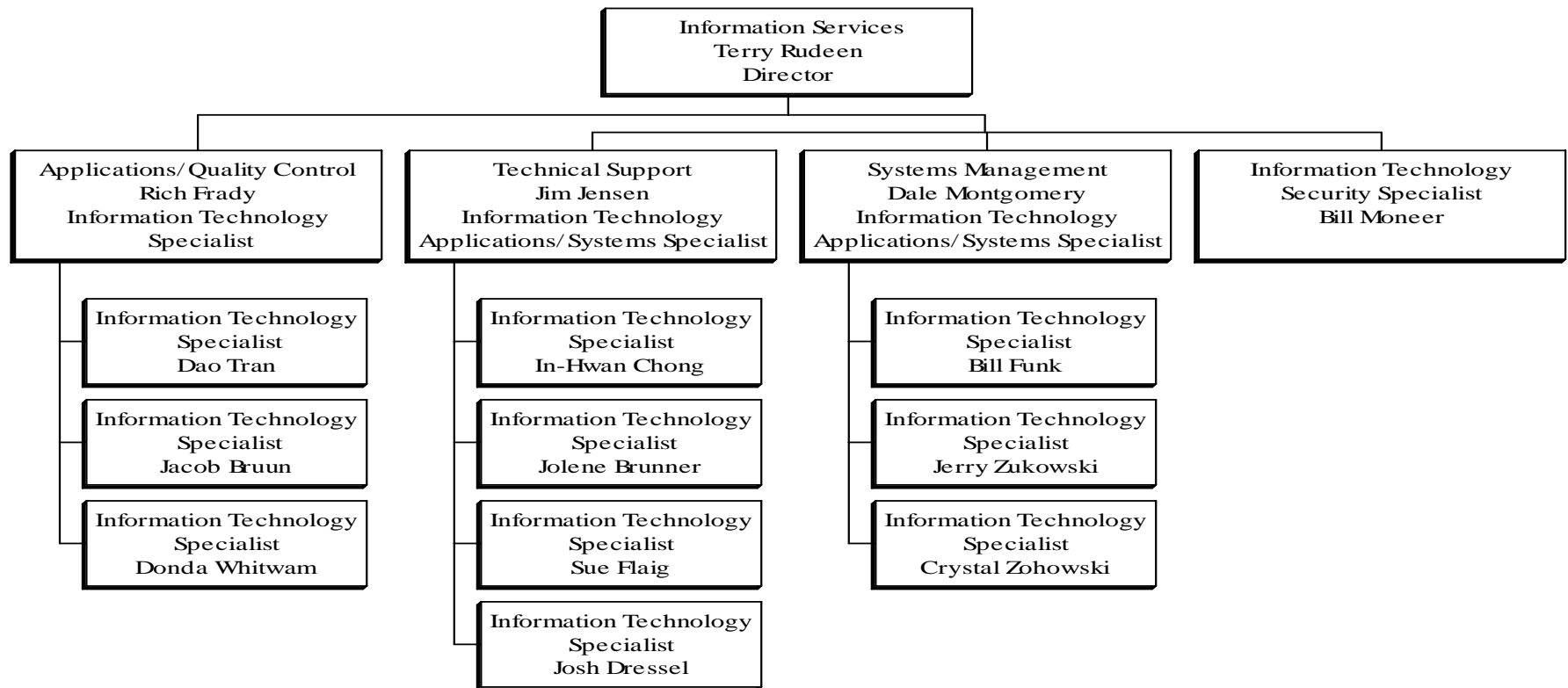


WASHINGTON'S LOTTERY

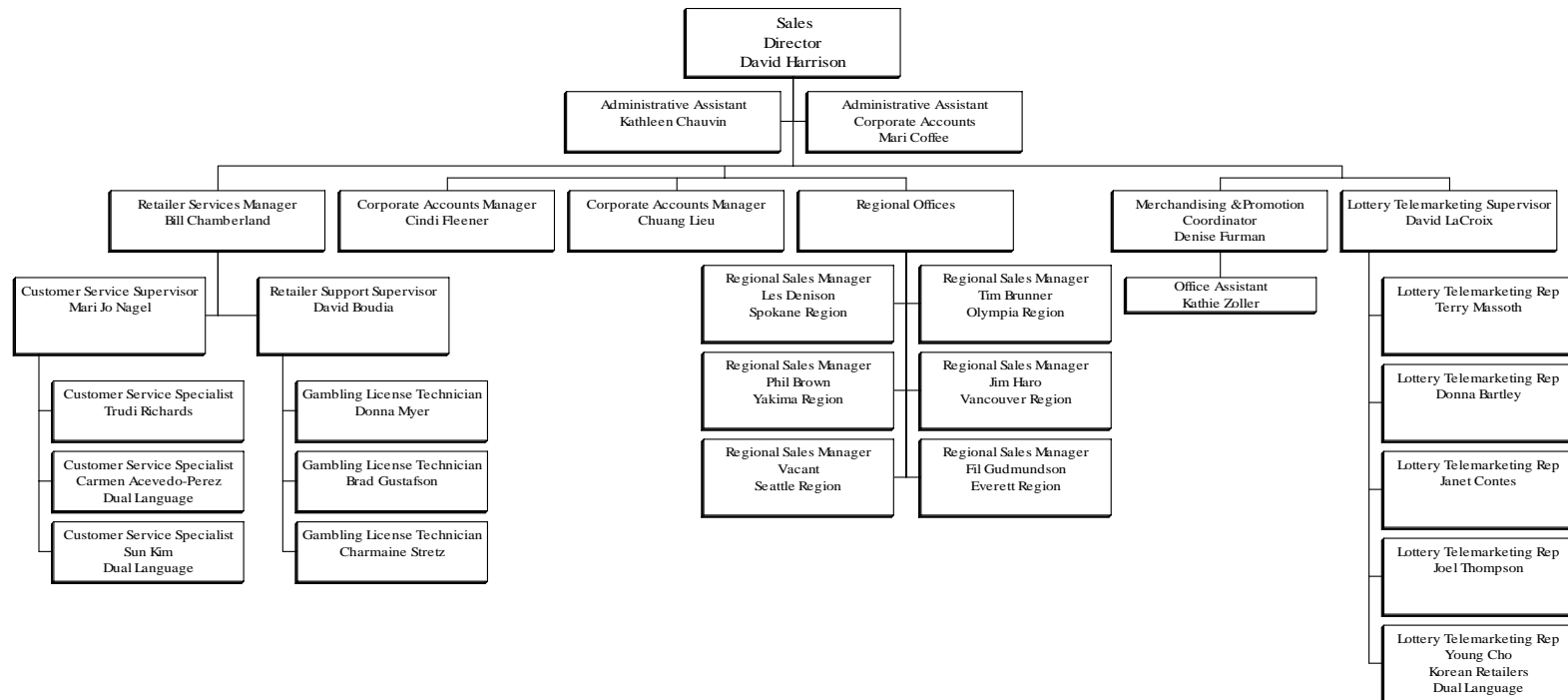
FINANCE AND ADMINISTRATION



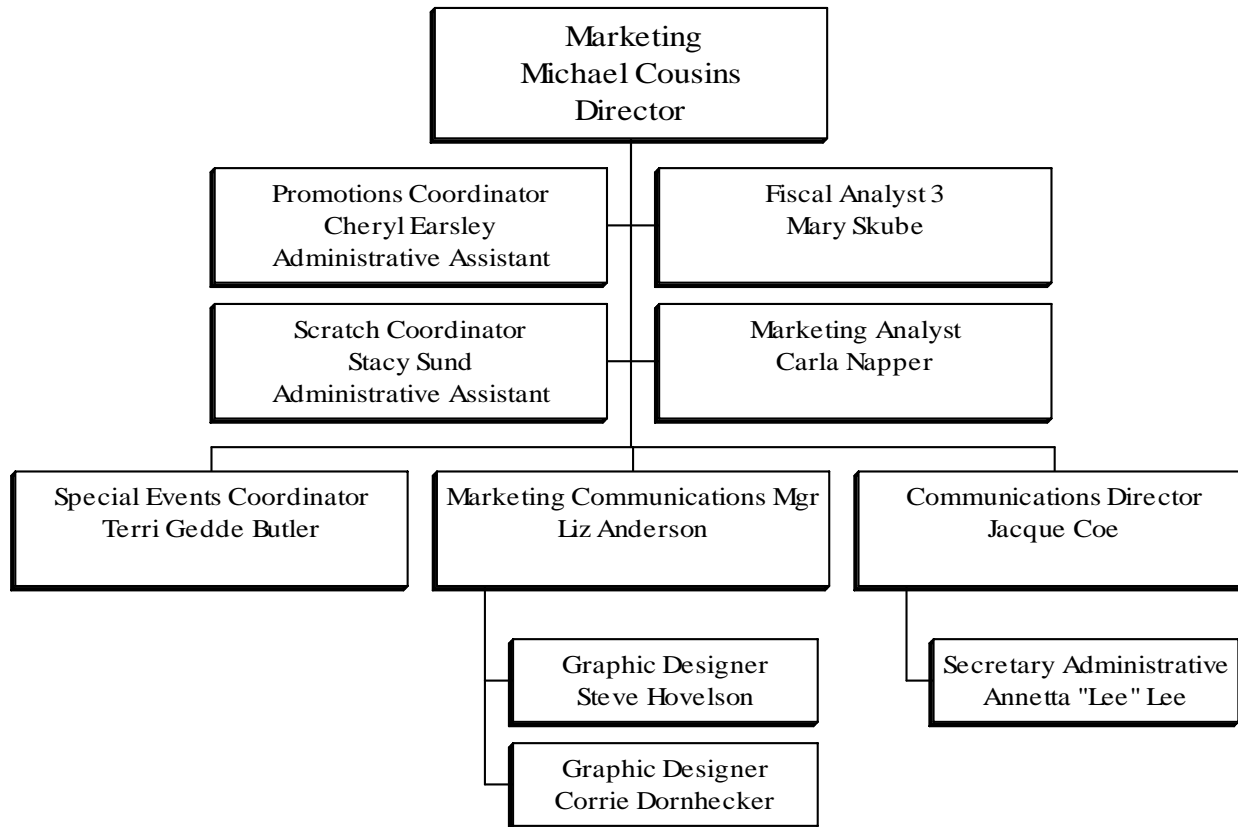
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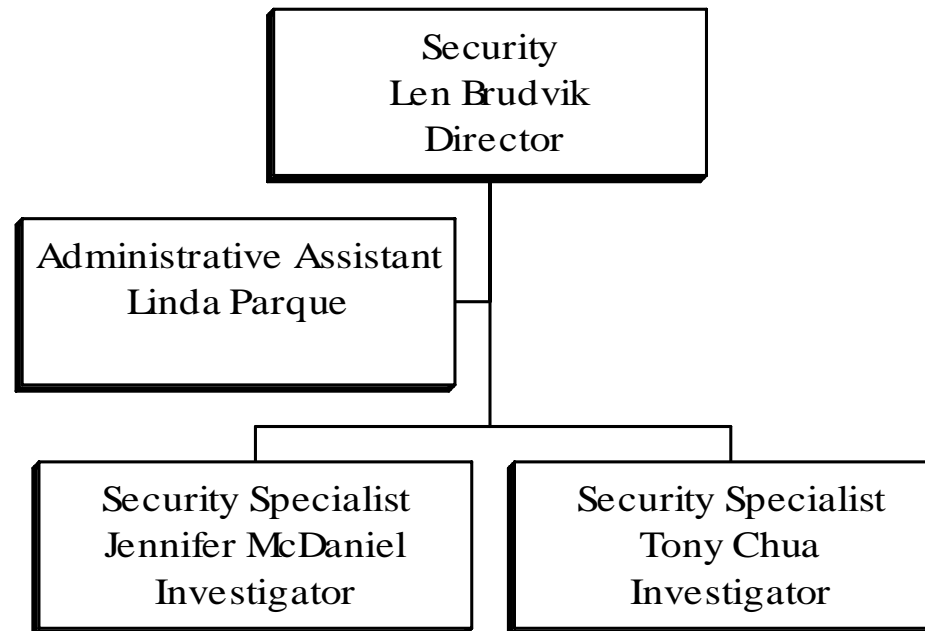
WASHINGTON'S LOTTERY SALES



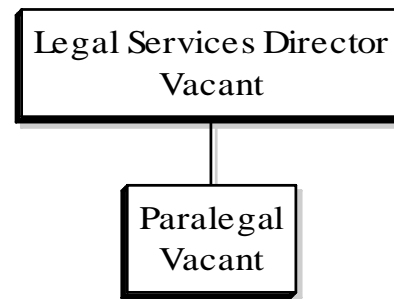
WASHINGTON'S LOTTERY MARKETING



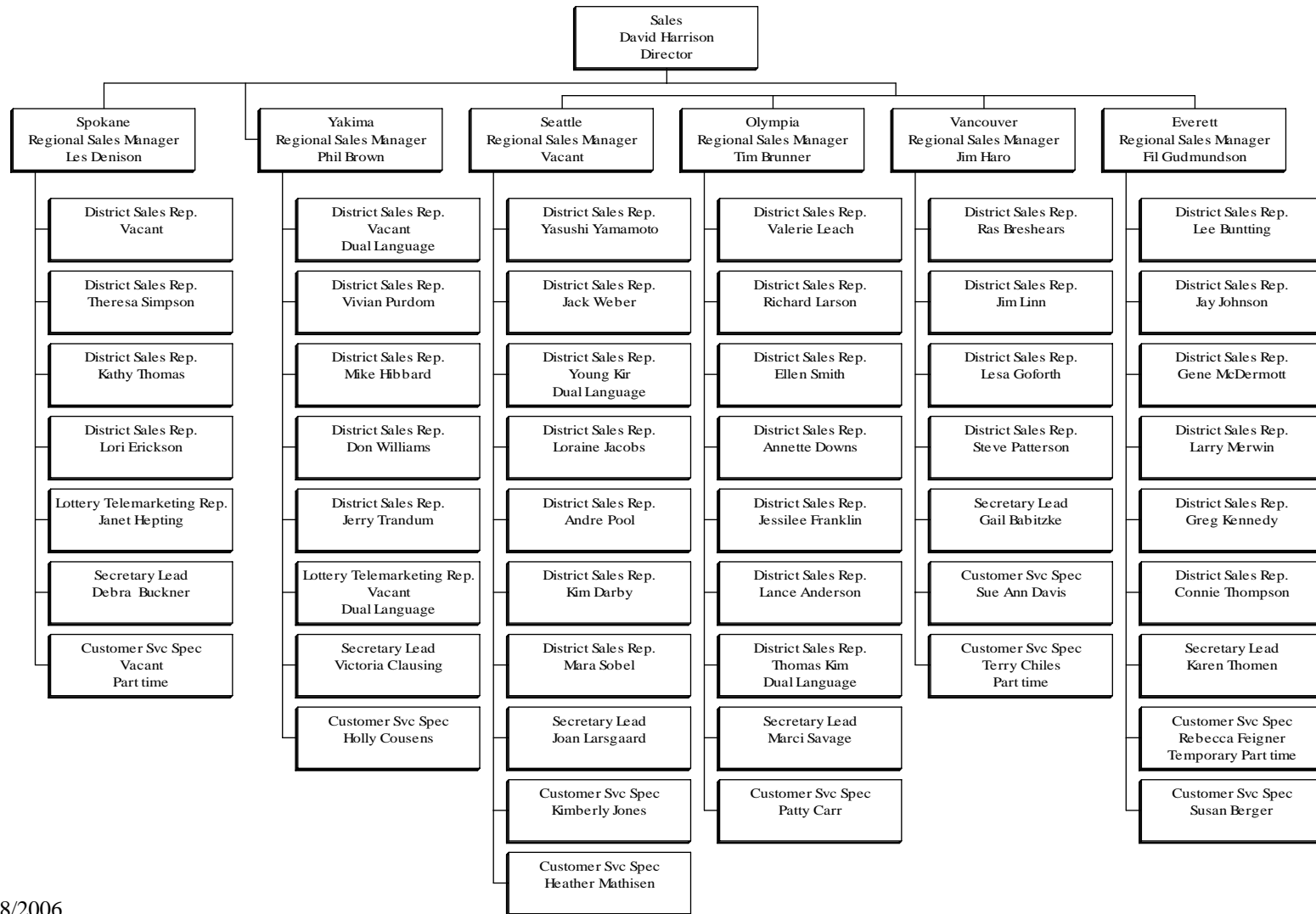
WASHINGTON'S LOTTERY SECURITY



WASHINGTON'S LOTTERY LEGAL SERVICES

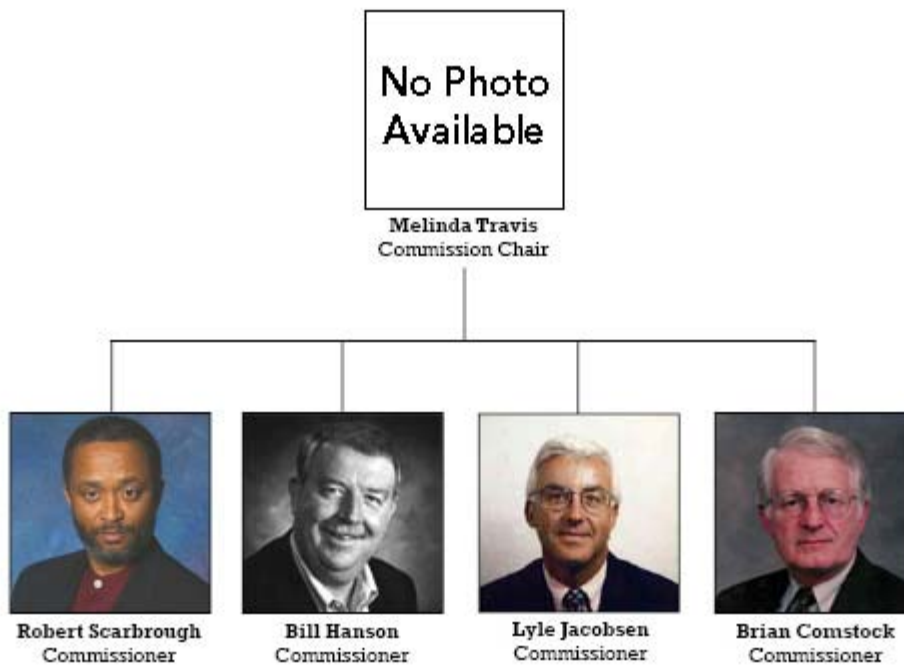


WASHINGTON'S LOTTERY REGIONAL OPERATIONS



4/28/2006

Washington's Lottery Commissioners



Draft FY08 Marketing Activities														
Bi-Week (ending):		7-Jul	21-Jul	4-Aug	18-Aug	1-Sep	15-Sep	29-Sep	13-Oct	27-Oct	10-Nov	24-Nov	8-Dec	22-Dec
Week #:		1	3	5	7	9	11	13	15	17	19	21	23	25
Activity	Week													
Fish & Wildlife Scratch Ticket														
Minor League Baseball	1-11	Minor League Baseball regular season - April through September												
Fair/Events	3-13	Fair Season												
Scratch Support	3-5 13-15 19-25													
Direct Mail/Stakeholder Outreach	3-5 13-15 23-25													
Lotto Fall Promotion	9-13					Trip of a Lifetime III								
Minor League Hockey	9-39					Minor League Hockey regular season - September through March								
Seahawks Season	11-23						Seahawks Regular Season - September through December							
Sonics Season	15-43								Seattle Sonics regualr season - October - April					
Hope for the Holidays	19-25													
Legislative Session	29-43													
St Patrick's Day Event	37													
25th Anniversary Activities/Emphasis	31-35	25th Anniversary												
New/Enhanced Games	37-41					New Game								
NW Womens Show	39													
Mega Millions Tax Day	41													
Mariners (TENTATIVE)	41-51													
Draw Game Promo	49-51													
STANDARD OPERATING PROCEDURES														
MM Jackpot Support	SOP													
Lotto Jackpot Support	SOP													
Winner Awareness	SOP													
Governor/Lottery	SOP													
Winners Minute	SOP													
Education Stakeholder Outreach	SOP													
Sales Promotion Support	SOP													
Communications Outreach	SOP													
Strategic Partnerships	SOP													
Sustainability Promotion	SOP													

Draft FY08 Marketing Activities														
Bi-Week (ending):		5-Jan	19-Jan	2-Feb	16-Feb	1-Mar	15-Mar	29-Mar	12-Apr	26-Apr	10-May	24-May	7-Jun	21-Jun
Week #:		27	29	31	33	35	37	39	41	43	45	47	49	51
Activity	Week													
Fish & Wildlife Scratch Ticket														
Minor League Baseball	1-11								2007 MINOR LEAGUE BASEBALL SEASON					
Fair/Events	3-13													
Scratch Support	3-5 13-15 19-25									tentative				
Direct Mail/Stakeholder Outreach	3-5 13-15 23-25									tentative				
Lotto Fall Promotion	9-13													
Minor League Hockey	9-39	Minor League Hockey regular season - September - March												
Seahawks Season	11-23		Playoffs											
Sonics Season	15-43	Seattle Sonics regualr season - October through April											PLAYOFFS	
Hope for the Holidays	19-25													
Legislative Session	29-43		Legislative Session											
St Patrick's Day Event	37						17-Mar							
25th Anniversary Activities/Emphasis	31-35			25th Anniversary PR										
New/Enhanced Games	37-41						New Game							
NW Womens Show	39							+/- 3/24						
Mega Millions Tax Day	41								4/15					
Mariners (TENTATIVE)	41-51								Major League Baseball Season					
Draw Game Promo	49-51													
STANDARD OPERATING PROCEDURES														
MM Jackpot Support	SOP													
Lotto Jackpot Support	SOP													
Winner Awareness	SOP													
Governor/Lottery	SOP													
Winners Minute	SOP													
Education Stakeholder Outreach	SOP													
Sales Promotion Support	SOP													
Communications Outreach	SOP													
Strategic Partnerships	SOP													
Sustainability Promotion	SOP													

Draft FY09 Marketing Activities														
Bi-Week (ending):		5-Jul	19-Jul	2-Aug	16-Aug	30-Aug	13-Sep	27-Sep	11-Oct	25-Oct	8-Nov	22-Nov	6-Dec	20-Dec
Week #:		1	3	5	7	9	11	13	15	17	19	21	23	25
Activity	Week													
Minor League Baseball	1-11	Minor League Baseball regular season - April through September												
Fair/Events	3-13	Fair Season												
Scratch Support	3-5 13-15 19-25													
Direct Mail/Stakeholder Support	3-5 13-15 23-25													
Lotto Fall Promotion	9-13					Trip of a Lifetime IV								
Minor League Hockey	9-39					Minor League Hockey regular season - September through March								
Seahawks Season	11-23						Seahawks Regular Season - September through December							
Sonics Season	15-43								Seattle Sonics regular season - October - April					
Hope for the Holidays	19-25													
Legislative Session	29-43													
St Patrick's Day Event	37													
New Game/Game Enhancements	37-41					New Game								
NW Womens Show	39													
Mega Millions Tax Day	41													
Mariners (TENTATIVE)	41-51													
Draw Game Promo	49-51													
STANDARD OPERATING PROCEDURES														
MM Jackpot Support	SOP													
Lotto Jackpot Support	SOP													
Winner Awareness	SOP													
Governor/Lottery	SOP													
Winners Minute	SOP													
Education Stakeholder Outreach	SOP													
Sales Promotion Support	SOP													
Communications Outreach	SOP													
Strategic Partnerships	SOP													
Sustainability Promotion	SOP													

Draft FY09 Marketing Activities														
Bi-Week (ending):		3-Jan	17-Jan	31-Jan	14-Feb	28-Feb	14-Mar	28-Mar	11-Apr	25-Apr	9-May	23-May	6-Jun	20-Jun
Week #:		27	29	31	33	35	37	39	41	43	45	47	49	51
Activity	Week													
Minor League Baseball	1-11								2007 MINOR LEAGUE BASEBALL SEASON					
Fair/Events	3-13													
Scratch Support	3-5 13-15 19-25									tentative				
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Hope for the Holidays	19-25													
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New Game/Game Enhancements	37-41						New Game							
NW Womens Show	39							+/- 3/24						
Mega Millions Tax Day	41								4/15					
Mariners (TENTATIVE)	41-51								Major League Baseball Season					
Draw Game Promo	49-51													
STANDARD OPERATING PROCEDURES														
MM Jackpot Support	SOP													
Lotto Jackpot Support	SOP													
Winner Awareness	SOP													
Governor/Lottery	SOP													
Winners Minute	SOP													
Education Stakeholder Outreach	SOP													
Sales Promotion Support	SOP													
Communications Outreach	SOP													
Strategic Partnerships	SOP													
Sustainability Promotion	SOP													

116 - State Lottery Commission

A001 Administration

The Lottery's purpose is to generate profits from sales to benefit state-funded efforts. All activities are funded from product sales. The Administration activity includes those services that support sales, such as executive guidance, accounting, budgeting, internal audit, legal counsel, facility maintenance, purchasing, information technology, security, and human resources.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: Strengthen the ability of state government to achieve results efficiently and effectively

Statewide Strategy: State financial resources and services

Expected Results

Lottery employees that are strongly supported as they generate sales. For the 2007-09 Biennium, the Lottery projects sales of \$() million and profits of \$() million. The distribution of profits are as follows: \$() million to the Education Construction Account, \$() million to the Stadium and Exhibition Center, and \$() million to King County (Safeco Field), \$() million to Economic Development Strategic Reserve Account, and \$() million to Problem Gambling Account.

Provide lottery games that will meet revenue estimates for education construction and other statutory commitments as reported to the Revenue Forecast Council				
Biennium	Period	Target	Actual	Variance
2007-09				

A009 Prizes

The Prize activity consists of the payments made to Lottery game winners.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: Strengthen the ability of state government to achieve results efficiently and effectively

Statewide Strategy: State financial resources and services

Expected Results

Lottery customers who enjoy playing Lottery games, who are convinced of the organization's integrity, and who want to play again. This activity also contributes to the revenue measure listed with the Administration activity.

A002 Commissions

The Commissions activity includes payments to approximately 3500 retailers who sell Lottery products.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: Strengthen the ability of state government to achieve results efficiently and effectively

Statewide Strategy: State financial resources and services

Expected Results

Lottery retailers who are enthused about selling Lottery products, who treat players well, and who represent the Lottery in a positive manner. This activity also contributes to the revenue measure listed with the Administration activity.

A005 Game Vendors

This activity includes contractual payments for services provided by vendors for the gaming system, stand alone machines, and scratch products, and includes such things as game planning and analysis, new technologies, and communication terminals in 3500 retail outlets.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: Strengthen the ability of state government to achieve results efficiently and effectively

Statewide Strategy: **State financial resources and services**

Expected Results

Lottery products (games) which are attractive and entertaining, and encrypted rapid wager processing systems that ensure high product integrity. This activity also contributes to the revenue measure listed with the Administration activity.

A104 King County (Safeco Field) Statutory Payment

This activity remits the funds necessary for debt service payment on the bonds used to build Safeco Field.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: **Strengthen the ability of state government to achieve results efficiently and effectively**

Statewide Strategy: **State financial resources and services**

Expected Results

Statutory obligation for debt service payments on bonds used to build Safeco field is met.

A007 Marketing, Research, and Communications

The Marketing activity, through analysis, innovation, and design, captures the attention of new customers and maintains the involvement of our core customer base. The activity includes research, advertising, public relations, community events, sports sponsorship, promotions, winning numbers hotline, and the Lottery website.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: **Strengthen the ability of state government to achieve results efficiently and effectively**

Statewide Strategy: **State financial resources and services**

Expected Results

Lottery players who know about our products, who choose them because they are both entertaining and offer a societal payback, and who will continue to watch for new and fun opportunities from the Lottery. This activity also contributes to the revenue measure listed with the Administration activity.

A011 Retailer Support

The Retailer support activity, through person-to-person customer contacts, is organized in six regions of the state. The activity assists both corporate accounts and independent retailers in licensing to operate, optimizing inventory, achieving high sales, securing product, and minimizing expenses. Retailer promotions and distribution of tickets to Lottery's retailers are all part of this activity.

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

Statewide Result Area: Strengthen the ability of state government to achieve results efficiently and effectively

Statewide Strategy: State financial resources and services

Expected Results

Lottery retailers who are knowledgeable about our products, confident in selling them, adequately stocked at all times, and appreciate serving as partners with the Lottery in benefiting the state of Washington. This activity also contributes to the revenue measure listed with the Administration activity.

Grand Total

	FY 2008	FY 2009	Biennial Total
FTEs			
GFS			
Other			
Total			

WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005

1	GENERAL	2
1.1	Objective of Document.....	2
1.2	Scope of Document	2
1.3	Organization of Document	2
2	DEFINITIONS	2
3	IDENTIFICATION OF RISKS	3
3.1	Disclosure of sensitive data	3
3.1.1	<i>Types of sensitive data</i>	<i>3</i>
3.1.2	<i>Types of disclosures</i>	<i>3</i>
3.2	Unauthorized modification, use, or destruction of data	4
3.2.1	<i>Unauthorized modification and use of data.....</i>	<i>4</i>
3.2.2	<i>Unauthorized destruction of data</i>	<i>4</i>
3.3	Unauthorized modification, use, or destruction of computer resources.....	4
3.3.1	<i>Hardware.....</i>	<i>4</i>
3.3.2	<i>Software.....</i>	<i>4</i>
3.3.3	<i>Unauthorized modifications of hardware.....</i>	<i>5</i>
3.3.4	<i>Unauthorized modifications of software.....</i>	<i>5</i>
3.3.5	<i>Unauthorized use of hardware or software</i>	<i>5</i>
3.3.6	<i>Unauthorized destruction of hardware or software</i>	<i>5</i>
3.4	Unauthorized modification, use, or destruction of telecommunication resources	
	6	
3.4.1	<i>Unauthorized modification of telecommunication resources</i>	<i>6</i>
3.4.2	<i>Unauthorized use of telecommunications resources</i>	<i>6</i>
3.4.3	<i>Unauthorized destruction of telecommunications resources.....</i>	<i>6</i>
4	THREAT (LIKELIHOOD) AND VULNERABILITY	7
4.1	Threat (Likelihood)	7
4.2	Levels of Vulnerability	7
4.3	Risks and their associated threat (likelihood) and vulnerability	8

WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005

1 GENERAL

1.1 Objective of Document

This risk, threat and vulnerability analysis documents the potential negative impacts that could result from:

- Accidental or intentional disclosure of sensitive data to unauthorized persons.
- Unauthorized modification, use, or destruction of data, computer, or telecommunication resources.

1.2 Scope of Document

The focus of this document is on Lottery IT resources. Lottery contractors, particularly the on-line system vendor, are required to conduct and document the separate analyses that address their IT resources.

1.3 Organization of Document

This document is organized in four sections.

- Section 1 provides general information about this document.
- Section 2 defines terms that are used in the document.
- Section 3 identifies the Lottery-specific risks that are analyzed in this document.
- Section 4 quantifies the likelihood of these risks occurring, and the Lottery's vulnerability if the risks did occur.

2 DEFINITIONS

- Lottery Employees. All permanent and temporary employees of the Lottery, regardless of their access to and knowledge of Lottery applications.
- Lottery Insiders. Lottery employees and contractors who have access to and knowledge of Lottery applications.
- Outsiders. Anyone who is not a Lottery employee or contractor but has expertise in illegally accessing (hacking) computer applications.
- Malware. Short for **malicious software**, software designed specifically to damage or disrupt a system, such as a [virus](#) or a [Trojan horse](#).
- Spyware. Any software that covertly gathers user information through the user's Internet connection without the users knowledge.
- Rogue. Unauthorized hardware or software.
- Risk.
 - Accidental or intentional disclosure of sensitive data to unauthorized persons.
 - Unauthorized modification, use, or destruction of data, computer, or telecommunication resources.
- Threat. Intentional acts, such as alteration of data, alteration of software, computer viruses and other malicious code, disclosure of confidential

WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005

information, electronic emanations, employee sabotage, external sabotage, fraud, hackers, terrorist activity, theft, and unauthorized use.

- Vulnerability. The cost the Lottery would incur if a potential threat actually occurs. In this analysis the probability and impact of an event are estimated in order-of-magnitude terms (Extreme, Great, Moderate, Minimum, and None).

3 IDENTIFICATION OF RISKS

3.1 Disclosure of sensitive data

This refers to the disclosure of personal data, accounting data, and proprietary information by Lottery staff.

3.1.1 Types of sensitive data

3.1.1.1 Personal data.

Personal data refers to personally identifiable information of players/claimants, research respondents, lottery employees, retailers and vendors/ contractors, as defined in USC Title 5, Section 552 a; Lottery Policy 140-005, and by the ISB Public Records Privacy Protection Policy of June 12, 2001. This includes data provided by other state agencies to the Lottery for the purpose of retailer licensing and for debt collection.

3.1.1.2 Financial data.

The focus here is on accounting information that could be misused if disclosed. This information includes (per the ISB policy):

- Credit card numbers, debit card numbers, electronic check numbers, card expiration dates, or bank or other financial account numbers supplied to an agency for the purpose of electronic transfer of funds, except when disclosure is expressly required by law.
- Financial information, including but not limited to account numbers and balances, and other identification numbers supplied by or on behalf of a person, firm, corporation, limited liability company, partnership, or other entity related to an application for a liquor license, gambling license, or lottery retail license.

3.1.1.3 Proprietary information.

Lottery vendors, particularly the on-line systems vendors, often use IT hardware or software that is protected by patents, copyrights and trademarks. Vendors typically mark this information Confidential, or they may request the recipients to sign non-disclosure agreements.

3.1.2 Types of disclosures

- Lottery employees accidentally disclosing sensitive data, e.g., throwing documents containing sensitive data into regular trash or recycling bins (rather than shredding the documents).

WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005

- Lottery insiders deliberately disclosing sensitive data with the intent of causing damage or personal gain.
- Outsiders (hackers) accessing and deliberately disclosing sensitive data with the intent of causing damage or personal gain.

3.2 Unauthorized modification, use, or destruction of data

This addresses the alteration, use or destruction of sensitive data owned by the Lottery. Examples are on-line ticket data files, winning number files, validation files, scratch ticket inventory and status files, outstanding claim files, accounts receivable files, accounts payable files, check registers, and so on. Some of these files reside on the vendor (GTECH) system; other are found on the Lottery computer platforms (Tandem and Network).

3.2.1 Unauthorized modification and use of data.

- Lottery employees accidentally modifying data.
- Lottery insiders modifying data and using it with the intent of fraud.
- Lottery retailers modifying data and using it with the intent of fraud
- Outsiders (hackers) modifying data and using it with the intent of fraud.

3.2.2 Unauthorized destruction of data

- Lottery employees accidentally destroying data.
- Disgruntled employees deliberately destroying data.

3.3 Unauthorized modification, use, or destruction of computer resources

For the purpose of this analysis, computer resources are broken out in two categories, hardware and software.

3.3.1 Hardware.

HP NonStop, servers, routers, gateways, desktop PCs, laptops, PDAs, Blackberrys, cell phones, printers, scanners, drawing devices (Random Number Generators (Origin Systems)), retailer terminals.

3.3.2 Software. (Where's the RNG covered within this section?)

Operating system software, off-the-shelf applications software, and custom applications software.

In the context of this analysis, unauthorized modification or use of hardware or software is seen as an attempt to use, modify or destroy sensitive data for illegal purposes.

Unauthorized destruction of hardware or software is seen as an attempt to deny its use for its intended purposes.

**WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005**

3.3.3 Unauthorized modifications of hardware.

- Modification of automated drawing devices with the intent to control the outcome of a draw.
- Modification of retailer terminals with the intent to produce tickets illegally.
- Attachment of foreign devices to retailer terminals, communications lines or the host computer, without approval. This includes devices that produce ticket transactions, and passive "spy" gadgets that can capture and display sensitive data. Also included are modems, gateways and routers that are attached for illegal data access.

3.3.4 Unauthorized modifications of software.

- Unauthorized modifications of mission-critical software applications by an employee with the intent of fraud.
- Unauthorized modifications of mission-critical software applications by an outsider (hacker) with the intent of fraud or causing damage.
- Malware is also capable of modifying mission-critical applications, but more commonly their target is operating system software and off-the-shelf applications software.

Mission-critical applications are located on the on-line vendor's and the Lottery's systems; however, only the Lottery's systems are included in this analysis. They include:

- Order Entry and Invoice
- Prize Verification
- Prize Payment
- Budget
- General Ledger
- Accounts Receivable
- Retailer Settlement

3.3.5 Unauthorized use of hardware or software

- Lottery staff using on-line vendor software to illegally divert Lottery funds.
- Lottery staff using Lottery software (Prize Payment, Accounts Receivable, Accounts Payable) to illegally divert Lottery funds.
- Lottery staff using banking software to illegally divert Lottery funds.
- Lottery staff using Lottery hardware or software for personal use.
- Lottery staff using hardware and software to access data for which they have no need to know, or perform activities that is outside their responsibility (outside the scope of their job).

3.3.6 Unauthorized destruction of hardware or software

- Malware destroying hardware or software

**WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005**

- Accidental destruction by employees, e.g. the wrong program being deleted from a catalog, a functioning piece of hardware getting mixed into the pile of defective hardware that goes to salvage.
- Disgruntled employees deliberately destroying hardware or software.
- Outsiders, e.g. frustrated players, deliberately destroying hardware or software in Lottery locations.
- Outsiders, e.g. frustrated players, deliberately destroying terminals at retailer locations.

3.4 Unauthorized modification, use, or destruction of telecommunication resources

Desk telephones, cell phones, pagers, PDAs, Blackberries, laptops, desktops, PBX, SCAN system, DIS backbone, Internet, voice lines, data circuits.

3.4.1 Unauthorized modification of telecommunication resources

- An employee connecting a modem or other telecommunications device to a Lottery telecommunications line and using it to conduct non-Lottery business.

3.4.2 Unauthorized use of telecommunications resources

- An employee obtaining and using another employee's SCAN access code.
- Unauthorized users using telecommunications resources for remote access to Lottery systems.
- Outsiders using telecommunications resources to access sensitive Lottery data.
- A Lottery employee connecting a rogue wireless access point to the network.
- An outsider or an unauthorized Lottery employee using an existing modem or rogue modem to access the Lottery network from a remote location.
- An employee losing a laptop or Blackberry and said device is used by unauthorized persons to access sensitive Lottery data.

3.4.3 Unauthorized destruction of telecommunications resources

- Destruction by malware
- Accidental destruction by employees, e.g. a functioning piece of hardware being mixed into the pile of defective hardware that goes to salvage.
- Disgruntled employees deliberately destroying telecommunications resources.
- Outsiders, e.g. frustrated players, deliberately destroying telecommunications resources.

**WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005**

4 THREAT (LIKELIHOOD) AND VULNERABILITY

In this section two aspects of the risks listed in Section 3 are addressed:

- The threat (likelihood) of the risk occurring.
- The vulnerability to the Lottery if the risk does occur.

4.1 Threat (Likelihood)

The various degrees of threat listed below are weighted from 1 to 5 (1 is the greatest threat), to allow Lottery senior management to direct IT security efforts against risks with the greatest probability of occurrence.

Weight	Degree of Threat (Likelihood)
1	Will happen
2	Has high probability that it will happen
3	May happen
4	Has low probability that it will happen
5	Will not happen

4.2 Levels of Vulnerability

The various levels of vulnerability listed below are weighted from A to E (A is the most serious), to allow Lottery senior management to direct IT security efforts against risks with the greatest associated cost.

Note: The weight is based on the mission-critical applications and processes identified in the [Business Impact Analysis](#)

Weight	Vulnerability
A	Extreme. Will or has the potential to halt one or more critical applications of the Lottery
B	Great. Will or has the potential to interfere with critical applications of the Lottery
C	Moderate. Would/could affect critical applications of the Lottery
D	Minimum. Would/could affect other than critical applications of the Lottery
E	None. Will not affect Lottery applications

WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005

4.3 Risks and their associated threat (likelihood) and vulnerability

RISK	THREAT (LIKELIHOOD)	VULNERABILITY
Lottery employees accidentally disclosing sensitive data.	2	D
Lottery insiders deliberately disclosing sensitive data with the intent of causing damage or personal gain.	4	C
Outsiders (hackers) accessing and deliberately disclosing sensitive data with the intent of causing damage or personal gain.	4	B
Lottery employees accidentally modifying sensitive data.	3	C
Lottery insiders modifying data and using it with the intent of fraud	4	B
Lottery retailers modifying data and using it with the intent of fraud	4	D
Outsiders (hackers) modifying sensitive data and using it with the intent of fraud.	4	B
Lottery employees accidentally destroying data	4	D
Disgruntled employees deliberately destroying data	4	B
Modification of automated drawing devices with the intent to control the outcome of a draw	4	D
Modification of retailer terminals with the intent to produce tickets illegally.	4	D
Attachment of foreign devices to retailer terminals, communications lines or the host computer, without approval.	4	E
Unauthorized modifications of mission-critical software applications by an employee with the intent of fraud	4	C
Unauthorized modifications of mission-critical software applications by an outsider (hacker) with the intent of fraud or causing damage	4	C
Modification of operating systems or off-the-shelf applications software by malware.	3	B
Lottery staff using on-line vendor software to illegally divert Lottery funds.	4	D
Lottery staff using Lottery software (Prize Payment, Accounts Receivable, Accounts Payable) to illegally divert Lottery funds.	4	C
Lottery staff using banking software to illegally divert Lottery funds.	4	C
Lottery staff using Lottery hardware or software for personal use.	1	D

**WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005**

RISK	THREAT (LIKELI- HOOD)	VULNERA- BILITY
Lottery staff using hardware and software to access data for which they have no need to know, or perform activities that is outside their responsibility (outside the scope of their job).	2	D
Malware destroying hardware or software	3	C
Accidental destruction by employees, e.g. the wrong program being deleted from a catalog, a functioning piece of hardware getting mixed into the pile of defective hardware that goes to salvage.	1	D
Disgruntled employees deliberately destroying hardware or software	4	B
Outsiders deliberately destroying hardware or software in Lottery locations.	3	D
Outsiders deliberately destroying terminals at retailer locations.	3	D
An employee connecting a modem or other telecommunications devices to a Lottery line and using it to conduct non-Lottery business.	3	D
An employee obtaining and using another employee's SCAN access code.	1	E
Unauthorized users using telecommunications resources for remote access to Lottery systems.	4	D
Outsiders using telecommunications resources to access sensitive Lottery data.	3	C
A Lottery employee connecting a rogue wireless access point to the network	3	c
An outsider or an unauthorized Lottery employee using an existing modem or rogue modem to access the Lottery network from a remote location.	3	C
An employee losing a laptop or Blackberry and said device is used by unauthorized persons to access Lottery data.	2	C
Destruction of telecommunications resources by malware.	3	D
Accidental destruction of telecommunications resources by employees	4	D
Disgruntled employees deliberately destroying telecommunications resources.	4	D
Outsiders, e.g. frustrated players, deliberately destroying telecommunications resources.	4	D

**WASHINGTON'S LOTTERY
RISK, THREAT AND VULNERABILITY ANALYSIS
As of January 21, 2005**

**WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005**

1	GENERAL	2
2	BACKGROUND	2
3	BUSINESS PRIORITIES.....	2
4	MISSION-CRITICAL BUSINESS APPLICATIONS AND RELATED PROCESSES.....	3
4.1	On-line Gaming System (GTECH)	3
4.1.1	On-Line Transaction Processing (OLTP).....	3
4.1.2	On-Line Product Management (OLPM)	4
4.1.3	Instant PRO:SYS (IPS).....	4
4.1.4	Retailer Management	4
4.1.5	System Administration	4
4.1.6	Promotions Management.....	4
4.1.7	GTRACK.....	4
4.1.8	Error Logging	5
4.1.9	GSTOCK	5
4.1.10	GLITE	5
4.1.11	Console, Vision, and Transformer	5
4.2	Drawing Process	5
4.3	Prize Verification (HP NonStop)	5
4.4	Pick and Pack Process.....	6
4.5	Prize Payment (over \$600).....	6
4.6	Budget.....	6
4.7	General Ledger	6
4.8	Accounts Receivable.....	6
4.9	Retailer Settlement.....	7
4.9.1	Billing.....	7
4.9.2	Collection.....	7
4.10	Education Fund Transfer.....	7
4.11	Hotline GTECH	7
4.12	Hotline (Lottery Retailer Services).....	7
4.13	Accounts Payable	8
4.13.1	Purchase Orders.	8
4.13.2	Accounting.....	8
4.13.3	Vendor Payment.....	8

**WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005**

1 GENERAL

This business impact analysis provides key factors that must be considered when performing Risk, Threat, and Vulnerability Analyses. It should be updated whenever there is a change in one or more key factors.

2 BACKGROUND

Washington's Lottery (WL) generates revenues for the state's education construction funds by selling products. WL currently sells two products: Instant and Draw games. Instant tickets are Instant games, and the six draw games are: The Daily Game, Daily Keno, Lotto, Mega Millions, ZIP, and QUINTO.



Total Lottery sales average \$1.25 million/day, of which approximately \$285,000/day goes directly to education. Instant ticket sales currently average 65% of total Lottery sales, while draw product sales make up the remaining 35%. (what is the date of this information? Who developed the data?)

3 BUSINESS PRIORITIES

Sustain Lottery ticket sales

Effectively manage Instant ticket games

Verify prize winners

Conduct drawings

Pay prizes from Lottery offices

Manage the budget

Track revenue and expenses

Bill retailers and receive payments

Transfer funds to the State (Education Construction account)

Transfer funds for stadiums to King County and the Stadium & Exhibition Account.

Communicate with retailers via Hotline

Pay vendors

**WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005**

4 MISSION-CRITICAL BUSINESS APPLICATIONS AND RELATED PROCESSES

Mission-critical applications and related processes relate directly to the key functions that are a priority to senior management. The following matrix demonstrates the relationship.

Key Function	Mission-critical application and processes
Sustain Lottery ticket sales	On-line Gaming System (GTECH)
Effectively manage instant ticket games	On-line Gaming System (GTECH) Order Entry and Invoice (GTECH) Pick and Pack Process
Verify prize winners	Prize Verification (HP Nonstop)
Conduct drawings	On-line Gaming System (GTECH) Drawing Process
Pay prizes from Lottery offices	Prize payment
Manage the budget	Budget
Track revenue and expenses	General Ledger (HP NonStop & EIS)
Bill retailers and receive payments	<ul style="list-style-type: none">• Accounts Receivable• Retailer Settlement
Transfer funds to the state (Education Construction accounts) and King County (Stadium & Exhibition Account)	Education Fund Transfer Stadium Transfers
Communicate with retailers via Hotline	Hotline (GTECH) Hotline (Retailer Services)
Pay vendors	Accounts Payable(SQL Server)

4.1 On-line Gaming System (GTECH)

The GTECH on-line Gaming System is called PRO:SYS. It consists of 14 subsystems.

4.1.1 On-Line Transaction Processing (OLTP)

OLTP is the central process of PRO:SYS. It handles all on-line products and is the pass-through for instant games. Major functions include:

- Process and respond to on-line ticket transactions (e.g. sales, validations, and cancels) received from retailer terminals.
- Communicate instant ticket transactions received from retailer terminals to the Instant PRO:SYS (IPS) subsystem and return IPS responses to the terminals.
- Provide real-time transaction and status reporting.

WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005

4.1.2 On-Line Product Management (OLPM)

OLPM is the primary method for controlling the central process and modifying game parameters. Major functions include:

- Draw control
- Hotline functions
- System and product control
- Real-time sales reporting (individual products and overall)
- Transaction inquiry

4.1.3 Instant PRO:SYS (IPS)

IPS is instant ticket specific. Major functions include:

- Process and respond to instant ticket transactions received from retailer terminals through the On-Line Transaction Processor (OLTP).
- Create orders for tickets (Telemarketing).
- Assign packs to orders (Pick and Pack).
- Process and respond to instant ticket inventory changes received from Lottery management terminals.

4.1.4 Retailer Management

Lottery staff use the Retailer Management subsystem to set up and maintain retailer information. GTECH Operations uses the subsystem to control retailer terminal and clerk parameters. From an IT security perspective this subsystem is particularly vulnerable to the disclosure of personal and financial data.

4.1.5 System Administration

System Administration provides the Lottery the primary tools for control system access. It also provides GTECH Operations certain processes to monitor system activities.

4.1.6 Promotions Management

The Lottery uses this subsystem to set up and execute promotions such as "Buy X get Y" and "Every Nth".

4.1.7 GTRACK

GTRACK is the database tracking system peripheral to PRO:SYS. It integrates the functions of Hotline, Dispatch and Communications. It is used exclusively by GTECH.

**WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005**

4.1.8 Error Logging

The Error Logging subsystem captures and displays all system errors. It also allows filtering of these errors by priority, product or system. It is used exclusively by GTECH.

4.1.9 GSTOCK

GSTOCK tracks inventory control and distribution of on-line ticket stock and other consumables. It is exclusively used by GTECH.

4.1.10 GLITE

GLITE is the Helpdesk Application used exclusively by GTECH.

4.1.11 Console, Vision, and Transformer

These are system management tools used by GTECH Operations.

4.2 Drawing Process

Although GTECH's On-Line Lottery Application drives the operation of draw games, tickets purchased for these games would have no potential value if a drawing were not conducted. Due to the integrity issues and highly secure nature of this process, it is of utmost importance to provide a definitive IT security plan for protecting draw game drawings.

The following table outlines when drawings are held for each draw game:

Game	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
Lotto	X		X			X	
Quinto	X		X			X	
Daily Game	X	X	X	X	X	X	X
Daily Keno	X	X	X	X	X	X	X
Mega Millions		X			X		

Drawings are held nightly in the "Drawing Studio" at Lottery Headquarters in Olympia. The policies and procedures associated with these on-line drawings are contained in the Washington's Lottery "Policies and Procedures (Drawing Procedures)" manual. A current copy of these policies and procedures are kept on the Local Area Network and at WL's off-site warehouse.

Numbers are drawn using a random number generator system called Origin. Origin is provided by SmartPlay International. The Lottery has three Origin systems, two systems in the Drawing Vault at the Lottery's Headquarters building and one in a secured cabinet at the offsite warehouse for emergency purposes.

4.3 Prize Verification (HP Nonstop)

WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005

The Prize Verification system is the central component of the Lottery's Internal Control System (ICS).

Throughout the day GTECH provides a copy of each draw transaction to the Lottery. Transfers of the data are referred to as "MJF slices". The last slice is transferred immediately after the draw games close for the drawing process, but before the drawing takes place. After the drawing takes place, the Prize Verification system processes the transactions and determines the winning tickets. The results are compared against the GTECH results. A match of the two makes the results official.

4.4 Pick and Pack Process

In the Pick and Pack process the Lottery warehouse assembles instant ticket orders that were placed by Scratch Inventory Specialists. This process is heavily supported with IT resources.

Each picking line includes a computer (PC), scanning device and two thermal printers. On the computer the Pick and Pack module in the IPS subsystem of PRO:SYS displays orders to be filled, assigns packs to orders as they are scanned in, and readies the orders for shipment.

The process also interfaces with UPS Shipping Pro, the UPS shipping and package tracking system for commercial shippers as well as a Fedex shipping system.

4.5 Prize Payment (over \$600)

The Prize Payment system on the HP Nonstop was principally designed to pay prizes over \$600 (which, per WAC 315-30-060 and WAC 315-10-075, cannot be paid by retailers); however, the system can pay prizes of any amount, for either draw or instant games.

This system allows payment of draw and instant game prizes at Lottery offices.

4.6 Budget

The Budget system is a MS Access/MS SQL Server application that resides on the Lottery Administrative Network.

It is used by the Lottery Budget Manager to record allocations for each program. Expenditures are downloaded from the statewide Agency Financial Reporting System (AFRS) through the Executive Information System (EIS) to the Budget System. Lottery managers then view the financial status of their programs.

4.7 General Ledger

The Lottery uses the AFRS system, the Lottery's HP NonStop and EIS systems as well as MS Excel and MS Access to track revenue and expenses.

4.8 Accounts Receivable

WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005

The Accounts Receivable system is a HP Nonstop application. It provides complete transaction history of every retailer account. It includes balancing, Electronic Fund Transfer (EFT) processing, statement processing, and account inquiry/reporting

4.9 Retailer Settlement

WAC 315-30-070 and WAC 315-10-080 require retailers to make payment of all moneys due the lottery through an EFT account.

4.9.1 Billing.

The Lottery bills individual retailer locations weekly through the Settlement Report generated by the PRO:SYS system and printed on the retailer terminal.

Corporate accounts are also billed weekly, through statements produced on the HP Nonstop (Accounts Receivable system). Depending on the wishes and capabilities of the recipient, statements are mailed, faxed, or electronically transmitted.

4.9.2 Collection

PRO:SYS creates an EFT file and forwards it to the Lottery (HP Nonstop). Finance reviews the file and then IS forwards it to the bank. The bank then sweeps retailer accounts for the amounts in the EFT file.

4.10 Education Fund Transfer

Since Washington's Lottery was established in 1982, its contributions to vital programs, such as the Education Construction Fund, Student Achievement Fund and State General Fund have surpassed \$2.2 billion. As of the start of fiscal year 2005 (July 1, 2004), all education proceeds from Lottery game sales have been redirected to the funding of education construction projects for K-12 and higher education.

The amount to be transferred is determined in a MS Excel spreadsheet updated by a Finance Department employee. Once the amount is reviewed and approved by the Finance and Administration Director and the Director, the Finance employee wires the amount to the State Treasurer via Bank software.

4.11 Hotline (GTECH)

GTECH operates this Hotline Service during the operating hours of the on-line system (currently from 4:30 AM to midnight). The Hotline operators, which include dual-language personnel, primarily process issues relating to GTECH's on-line system. Help calls are recorded and tracked in the Hotline application of the on-line system.

4.12 Hotline (Lottery Retailer Services)

The Lottery utilizes 1-800 Services to provide the following electronic access to Lottery information and services:

WASHINGTON'S LOTTERY IT SECURITY PROGRAM
BUSINESS IMPACT ANALYSIS
As of July 2005

- Winning Lottery numbers - recorded messages.
- Retailer Services - dual-language interactive access to Lottery staff (Telemarketing, Retailer Support, Customer Services).

4.13 Accounts Payable

The Accounts Payable process spans several applications:

4.13.1 Purchase Orders.

Program managers submit requisitions to Administrative Services. Using the Orderlog applications (MS Access) Administrative Services creates a field order. Copies of the printed field order are forwarded to the Accounts Payable Section of Financial Services.

4.13.2 Accounting.

The Accounts Payable Section copies pertinent accounting information from the field order into EIS. At the end of the day a process is automatically started to upload the information to AFRS.

4.13.3 Vendor Payment.

The payment method depends on the type of fund from which is paid.

- The State Treasurer creates a warrant if it comes out of Fund 578 (Appropriated).
- The Accounts Payable Section creates a local check if it comes out of Fund 577 (non-appropriated/allotted).